

*The Transformation of the Australian Shipping Industry.  
1945 to 2002*

*By*

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This thesis is submitted in fulfilment of the requirements  
For the degree of Doctor of Philosophy

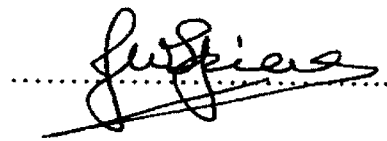
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## STATEMENT OF AUTHENTICITY

The following work, "The Transformation of the Australian Shipping Industry, 1945-2002" is, to the best of my knowledge and belief, original except as acknowledged in the text. None of this material has been previously submitted, either in whole or in part, for a degree at this or at any other university.

A handwritten signature in black ink, appearing to read "Juppia", is written over a horizontal dotted line. A solid horizontal line is drawn below the dotted line, crossing under the signature.

14 March 2006

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This work has benefited from discussions with all of the above, and been made easier by the willing help of the staffs of the Australian National Maritime Museum, the Mitchell Library, Melbourne University Archives, the State Records Office of Western Australia, the Department of Transport Library, the National Archives of Australia, and particularly the Australian National University's N.G. Butlin Institute.

It remains for me to state that the views expressed herein are mine as are any errors arising from misunderstanding of the information supplied by the people have so kindly helped me.

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**ABBREVIATIONS**

ACSC	Australian Coastal Shipping Commission (the Commission)
Adelaide	The Adelaide Steamship Company Limited
ADTR	Australian Dept of Trade and Resources
AIDA	Australian Industries Development Association.
AFR	The Australian Financial Review
AGPS	Australian Government Publishing Service
ANL	The Australian National Line. (Alternatively “the Line”)
ANMA	Australian National Maritime Association
ASA	Australian Shipowners Association
ASB	Australian Shipping Board
ASIA	Australian Stevedoring Industry Authority
ASIB	Australian Stevedoring Industry Board
ASO	Associated Steamship Owners
ASP	Associated Steamships Proprietary Limited
ASOF	Australasian Steamship Owners Federation
ASSB	Australian Shipbuilding Board
ATAC	Australian Transport Advisory Council.
AUSN	The Australasian Steam Navigation Company Limited
BHP	The Broken Hill Proprietary Company Limited
BIE	Bureau of Industry Economics
Boral	Bitumen Oil Refineries of Australia Limited
BPC	British Phosphate Commission
BTE	Bureau of Transport Economics
BTCE	Bureau of Transport and Communications Economics

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Burke	John Burke and Company Proprietary Limited
Burns Philp	Burns Philp and Company Limited
Bulkships	Bulkships Limited
Carpenter	W.R. Carpenter Limited
Coast	Coast Steamships Limited
Crawford	Committee on Revitalisation of Australian Shipping. Eponymous with the name of its chairman Sir John Crawford.
CSOA	Commonwealth Steamship Owners Association
CSR	The Colonial Sugar Refining Company Limited
CVP	Continuing Voyage Permit
DCN	Daily Commercial and Shipping News
DOST	Department of Shipping and Transport
DOT	Department of Transport
DOT (WA)	Western Australian Government Department of Transport
DWRSB	Department of Workplace and Small Business Canberra
Holyman	William Holyman and Sons Proprietary Limited (until 1985)
Holyman	Holyman Limited ( from 1994)
IAC	Industries' Assistance Commission
Illawarra	Illawarra and South Coast Steam Navigation Company Limited
ISOA	Independent Steamship Owners Association
Line	"the Line". (alternative to ANL)
McIlwraith	McIlwraith McEacharn Limited
Melbourne	The Melbourne Steamship Company Limited
MIC	Maritime Industry Commission
MIDC	Maritime Industry Development Committee
Miller	R. W. Miller and Company Limited

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ML	Mitchell Library, Sydney
MPA	Port of Melbourne Authority
MSG	Merchant Service Guild of Australia
MU	Archives of Melbourne University
MUA	Maritime Union of Australia
Newcastle and Hunter	New castle and Hunter Steam Navigation Company Limited
Parker	Huddart Parker Limited
Paterson	James Paterson Proprietary Limited
Patrick	James Patrick and Company Proprietary Limited
NAA	National Archives of Australia
NGB	Noel Butlin Institute, Australian National University
NMM	Australian National Maritime Museum
North Coast	North Coast Steam Navigation Company Limited
PMA	Port of Melbourne Authority
Scott Fell	William Scott Fell and Company Limited
SIC	Stevedoring Industry Commission
SIRA	Shipping Industry Reform Authority
Sleigh	H.C. Sleigh Limited
SMH	The Sydney Morning Herald
Smith	Howard Smith Limited
SRG	Shipping Reform Group
SRO	State Records Office, Perth, Western Australian
SUA	Seamen's Union of Australia
SVP	Single Voyage Permit

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Stateships	The Western Australian Government's shipping service (formerly WASSS until 1979)
TNT	Thomas Nationwide Transport Limited
Union	The Union Steamship Company of New Zealand Limited
WASSS	Western Australian State Shipping Service (after 1979)
WWF	Waterside Workers Federation of Australia

## CONVENTIONS

- 1) The Notes, References and Bibliographies in this thesis have been compiled in accordance with Section 9 of the *Style Manual for Authors, Editors and Printers, Fifth Edition*, AGPS, Canberra, 1994.
- 2) Throughout this work “Government” refers to the Federal Government of the Commonwealth of Australia. Other governments are referred to by name.
- 3) Monetary amounts are expressed throughout this thesis in Australian dollars with sums cited prior to the introduction of decimalisation on 14/2/66 converted to dollars from Australian pounds at the rate of two for one.

## **SYNOPSIS**

In the years preceding the Second World War the private shipowners that constituted the Australian shipping industry organised themselves into three distinct segments; companies in interstate and intrastate trades and those whose vessels were integrated with their principal business. These differences in trades virtually precluded rivalry between segments and between the firms comprising them, legislation essentially excluded foreign competition from the coastal trades, and infrastructure deficiencies rendered substitutes uncompetitive. Thus protected the industry that firms aspired to restore post-war was high-cost, structurally weak, commercially insecure and therefore vulnerable to six new or strengthened forces that developed during and immediately after the war. The number and strength of these forces, and incidence on the industry's segments varied from time to time. Initially they were restrictions on the supply of ships and labour, an extension into peacetime of the Government's wartime regulation of the industry that limited shipping management's operational freedom. Two additional forces appeared; a re-established Government Line provided rivalry to the private companies and strengthened air and land transport made deep inroads into shipping's general cargo trades. Although the new force of technology improved shipping's competitiveness its general cargo trades were lost to its substitutes. The industry turned for employment to the bulk cargoes of Australia's rapidly growing mining and manufacturing industries that became the dominant users of shipping. This introduced a sixth force that contributed to shipping's retreat from the important place it held in Australia's pre-war transport system to its present main function of providing shipping services to the manufacturing and mining sectors.

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## CHAPTER ONE

### DECLINE AND FALL: POSTWAR AUSTRALIAN SHIPPING

Since European settlement the sea has provided a practical, and sometimes the only, means of communication between the centres of population established on the mainland coast and in Tasmania, creating Australia's infant shipping industry. Through recessions, strikes and periods of intense competition, the industry flourished, and with Federation came legislation to protect Australia's coastal trades from the encroachments of foreign vessels. By 1939, predominantly through the investment of private companies, shipping occupied an important place in the Australian domestic transport system. This included a near-monopoly in the interstate general cargo trades and a vital role in supplying the goods and materials required by Australia's expanding industries and in distributing their products to the cities. Until after 1945 poor roads, lack of a standardised rail system and an air transport industry far from maturity precluded effective challenge from land and air to shipping's position. Although Australia emerged in the nineteenth century as an important trading nation whose exports and imports might have sustained a substantial fleet in international trade, its shipping industry remained essentially a carrier of coastal cargoes.<sup>1</sup> In part this can be attributed to the monopoly of Australia's foreign trades by British ships during its colonial period that restricted Australian participation. Since the end of the Second World War Australian shipping has had to compete in international trade with foreign flag ships whose owners received financial support and encouragement from their governments. This inability to penetrate the international trades deprived Australian shipping of an alternative market for its services when its coastal trades later diminished.<sup>2</sup>

By 1939, Australia's shipping industry provided regular interstate general cargo services between the major centres of population, and similar services operated

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<sup>1</sup> By 1992 Australia ranked 20<sup>th</sup> and 21<sup>st</sup> among importing and exporting nations respectively, with a 12% share of the world's maritime task in terms of tonne-miles and an annual growth of 7.8% compared with a world average of 2.3%. Australian Shipowners' Association (ASA), *The Benefits of Having an Australian Shipping Industry*, Occasional Paper Number Nine, Melbourne, 1994, p.10. By contrast Australian shipping carried only 4.2% of the country's exports and imports. J. King, *Australian Shipping*, Australian National Maritime Association (ANMA), Melbourne, 1989, p. 23.

## *The Australian Shipping Industry*

within most states. The principal interstate bulk trades were the transport of raw materials for the steel making processes of BHP Ltd, and the distribution of New South Wales coal to other states to fuel their industries. General cargo and passenger services operated in all mainland states, and the intrastate bulk trade of greatest importance was the freighting of coal from the Hunter River area to Sydney for its power and industry. A fleet of passenger ships, whose names and those of their owners were household words, provided frequent services between major cities. With the exception of Western Australia's intrastate trades covered by its government's State Shipping Service (WASSS), the funds and initiative that drove the industry had been provided by the private companies that had serviced most coastal trades since the Government's sale of its Commonwealth Line in 1928.

Today the role and importance of the industry has changed substantially. Except between the mainland and Tasmania, the passenger trade has long since disappeared due to the growing availability of convenient and relatively cheap air travel. Of shipping's former flourishing interstate general cargo trades, only those across the Bass Strait that were incontestable by land transport remain. The interstate cargo consumers also changed as the many shippers of the multitude of items that constituted general cargo transferred their business to road and rail. The principal interstate cargo trade consumers now comprise a small number of manufacturing, oil and mining firms that charter what has become a predominantly bulk fleet. Shipping's intrastate general cargo trade has also long been lost to land transport, apart from services to far north Queensland by two minor vessels and several small ships engaged in minor intrastate bulk trades. In all trades the general purpose ships that carried either general or bulk cargoes have disappeared, replaced by vessels specifically designed for dry or bulk liquid cargoes or unit loads. To analyse the reasons for these changes it is necessary first to define the Australian shipping industry. A general definition of its trading fleet is "... vessels operated by Australian companies to and from Australia with Australian crews, vessels licensed to operate on

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<sup>2</sup> Attempts by the Government to engage in international shipping between the wars with its Commonwealth Line ended in financial losses and its sale in 1928 in controversial circumstances.

the Australian coast (meaning they can trade between states), and vessels operating intrastate.”<sup>4</sup>

This definition must be taken as inclusive of shipping’s ancillary, the stevedoring industry, so far as its services were used by Australian vessels.<sup>5</sup> The structure of Australian shipping in 1939 that was disturbed by the Second World War comprised three segments served by a total of approximately fifty private shipowners and one government owner, to which by 1945 had been added the Commonwealth Government.<sup>6</sup>

The first segment was the interstate passenger and general cargo trades dominated by the Australasian Steamship Owners Federation (ASOF) and the Independent Steamship Owners Association (ISOA), the members of which comprised the industry’s major shipping firms.<sup>7</sup> The ASOF operated its ships through Australian Steamship Owners, a coastal shipping cartel; the ISOA was a less formal association whose principal purpose was to give its members a common forum and unified voice.<sup>8</sup> A number of minor shipowners, mostly with only one or two vessels, also operated in various interstate and intrastate trades independently of the ASOF and ISOA. The second segment was the intrastate trades of Queensland, New South Wales, South Australia and Western Australia. The third segment of the industry

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<sup>4</sup> Department of Workplace Relations and Small Business, *Australian Shipping 1997*, Maritime Transport Group, Dept of Workplace Relations and Small Business, Canberra, 1998, p.1.

<sup>5</sup> Firstly, although stevedoring as an industry is distinct from shipping, as the contractors who load and discharge a ship’s cargo, stevedoring companies are the *de facto* agents of the shipowner who therefore bears responsibility for their operations. Secondly, the costs of stevedoring general cargo were borne by the shipowner who therefore ran the commercial risk of high freight rates reflecting inefficient stevedoring. Finally, most of the major Australian shipping companies owned or had interests in the companies that stevedored their ships. For instance, the principal stevedoring companies owned by shipping companies included Newstead Wharves, Oxley (Brisbane), Macquarie (Sydney), Patrick’s (Sydney and Newcastle), Port Kembla (Port Kembla), Melbourne (Melbourne), Smith Patrick, (Port Adelaide and Fremantle), and Overseas and General (North Queensland). Patrick had stevedoring companies in most major ports, and BHP in those used by its ships. J. Spiers, *The Australian Stevedoring Industry* Unpublished M. Comm. Thesis, University of Melbourne, 1970, p.54.

<sup>6</sup> R.R. Hirst, ‘The Transport Industry’ in *The Economics of Australian Industry*, ed. A. Hunter, MUP, Melbourne, 1965, p. 74.

<sup>7</sup> The ASOF’s members comprised the Australasian United Steam Navigation Company Limited (AUSN), The Adelaide Steamship Company Limited (Adelaide), Howard Smith Limited (Smith), Huddart Parker Limited (Parker), James Paterson Proprietary Limited (Paterson), McIlwraith McEacharn Limited (McIlwraith), The Melbourne Steamship Company Limited (Melbourne) and The Union Steamship Company of New Zealand Limited (Union). All of these companies, with the exception of Union, were also members of the ASO.

<sup>8</sup> The companies forming the ISOA were James Patrick and Company Proprietary Limited (Patrick), John Burke Limited (Burke), William Scott Fell and Company Limited (Scott Fell) and R.W. Miller Limited (Miller).

comprised the fleets that were integrated with the main businesses of their owners, carrying the raw materials used in their manufacturing processes and distributing their products. This segment of "integrated" shipowners was not organised into a group and thus had no association with each other except perhaps normal commercial transactions.<sup>9</sup> Throughout this thesis the term 'private' refers to these three sectors collectively; the term "independent" distinguishes the other private companies from the integrated owners.

This structure into which shipping had organised itself through time and custom had several long-term implications for the industry's viability. Firstly it is evident that little, if any, competition existed between the segments or rivalry between the companies comprising them. As Porter points out, domestic rivalry creates pressures on firms to improve and innovate, while vigorous local competition sharpens advantages at home and pressures domestic firms to trade internationally in order to grow.<sup>10</sup> Conversely, Porter predicts that a service industry, which Australian shipping was, will rarely succeed abroad without a background of strong domestic rivalry, an impediment of some consequence when some operators expanded into overseas trades as domestic opportunities declined.<sup>11</sup>

Lack of competition and industry rivalry was complemented by the *Navigation Act (1912)* that since its introduction in 1912 had effectively excluded competition from foreign ships in the Australian coastal trades. This Act did not preclude foreign ships from trading on the coast, but its requirement that they must operate on the same footing as Australian ships with respect to crew wages, safety and minimum accommodation standards, provided a barrier to entry sufficient to deter foreign shipowners. Otherwise the Act allowed the issue of trading permits to foreign ships to carry coastal cargoes if a suitable Australian vessel was unavailable. Legislative protection intended to protect Australian workers and business from competition by cheap, sub-standard foreign shipping had two collateral effects. Secure from the

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<sup>9</sup> The companies grouped together as integrated companies for the purpose of this thesis are the Broken Hill Proprietary Company Limited (BHP), the Colonial Sugar Refining Company Limited (CSR), the British Phosphate Commission (BPC) and Burns Philp Limited (Burns Philp).

<sup>10</sup> Michael E. Porter, *The Competitive Advantage of Nations*, The Free Press, New York, 1990, pp. 118, 119.

<sup>11</sup> *Ibid* p. 264

competition of foreign ships and their crews, industrial action by militant maritime unions obtained remuneration for Australian seamen that exceeded international standards. The costs so imposed on shipping also increased those of its users, reducing both their capacity to compete and Australian shipping's. The combination of high costs induced by exclusion of rivalry and legislative protection indicated a structurally weak industry. All major players were profitable at company levels in the post-war years but there is evidence this was from their other interests such as coal, sugar and real estate rather than shipping. Arguably this combination of "reasonable" profits from other sources, legislative protection and absence of competition not only protected the industry but made it tempting to quit shipping in adversity, should it arise. Shipping was therefore commercially insecure as well as structurally weak. The long-term features of legislative protection and high-cost, disruptive labour relations that developed while Australian shipping was dominated by independent private companies were inherited by the Australian National Line when it was created in 1956.

With the exception of the Western Australian State Shipping Service (WASSS), owned by the State's government and principally operated intrastate, all of the ships serving these segments were privately owned. However, during the Second World War a new element was introduced to shipping. The Commonwealth Government returned as a shipowner, principally in the interstate bulk trades, to an industry it had left in 1929 and by 1945 it had acquired a substantial fleet of vessels. Some had been constructed by the domestic shipbuilding industry that the Government had revived during wartime, others chartered in from overseas until they could be replaced. Table 1.1 shows the relative importance in 1945 of the fleets owned by private shipowners and the Government. Only the passenger ships among the vessels of this fleet were specifically built for their trades. Specialised designs for efficiency of cargo handling had not yet been developed, there were no Australian tankers and thus the vessels comprising this fleet differed little from each other except in size. The most common type was a cargo ship of between three and four thousand

gross tons capable of carrying either bulk or, after cleaning the holds, general cargoes, most of which were loaded and discharged by hand using the ships equipment.<sup>12</sup>

**Table 1.1**  
**Ownership of the Australian Trading Fleet in 1945<sup>13</sup>**

Trade	No.: Vsls. (% Total)	GRT (% Total)
<b>Total Private Fleet</b>	<b>169 (93.9)</b>	<b>465,549 (89.3)</b>
<b>Government</b>	<b>11 (6.1)</b>	<b>56,084 (10.7)</b>
<b>Total Aust. Fleet</b>	<b>180 (100)</b>	<b>521,633 (100)</b>

**Source: Condensation of Appendix One**

Apart from the added presence of the Government, in 1945 the private interstate owners faced challenges from two more new elements in resuming their peacetime operations.<sup>14</sup> These were restrictions on the supply of their vessels and labour and competition from substitutes. During the war the Australian fleet had been worked hard. All vessels needed refurbishment and many of the private companies' needed replacing because more than fifty percent exceeded twenty five years in age. However, the Government's insistence that new ships be built in Australia's high cost shipyards made fleet renewal too expensive for many owners.<sup>15</sup> On the wharves, where productivity had fallen dramatically since pre-war times, shipowners also faced a militant workforce on their vessels whose supply since 1942 was controlled by two Government agencies.<sup>16</sup>

Although perhaps not apparent in 1945, shipping also faced another new element; strengthened competition from its substitutes. Until 1939 effective competition from air, rail and road transport had been hampered by cost, the number

<sup>12</sup> Barry Pemberton, *Australian Coastal Shipping*, op. cit. p.157-159.

<sup>13</sup> Condensation of Appendix One derived from Barry Pemberton, *Australian Coastal Shipping*, MUP, Melbourne, 1979, Appendix II.

<sup>14</sup> In 1945 the Government considered, but decided against, nationalisation of Australian shipping. Submission to Cabinet by the Shipping and Shipbuilding Committee 5/12/45. Agendum item 900a to 900e. CRSA2700/5 NAA. Also in 1945, the Government attempted unsuccessfully to nationalise the airline industry.

<sup>15</sup> J.King, *Australian Shipping*, op. cit. p.103.

<sup>16</sup> In Melbourne the average throughput of cargo per day over eleven selected berths had declined from 1929 tons in 1938, to 314 tons and 323 tons in 1949 and 1950 respectively. *Port of Melbourne Annual Report for 1950*. The Stevedoring Industry Commission (SIC) and the Maritime Industry Commission (MIC) respectively regulated the supply of labour on the wharves and for ships' crews.

of different rail gauges and poor roads. During the war the Government had added to the infrastructure of both air transport and road hauliers for military purposes, and these modes now had the benefits of these improvements. Like shipping, the postwar railways were run down but their re-equipment and refurbishment was a priority of the state government owners. Until the Commonwealth Government derequisitioned their cargo ships in September 1947 and their passenger ships several years later, the independent shipowners were restricted in meeting the strong demand for transport services as manufacturing switched to the post-war production of consumer goods. By the early 1950's, however, the principal private ship operators had resumed their peacetime trades. The ASO had re-established services from its headquarters port of Melbourne to Western Australia via Adelaide, and northwards to Cairns through Melbourne and Sydney. Similar services to Hobart and northern Tasmanian ports, principally by Union and William Holyman and Sons Limited (Holyman's) and some minor operators had also resumed. Meanwhile shipping's land substitutes had begun to penetrate its general cargo trades whose features of high freight rates and many shippers had long attracted the independent owners.

The integrated companies, The Broken Hill Proprietary Company Limited (BHP) and The Colonial Sugar Refining Company Limited (CSR), faced an easier transition to peacetime trading than their independent counterparts. During wartime the Government had not requisitioned the ships of these companies and they had remained principally in their peacetime trades. Thus BHP's resumption of independent voyages with coal and coke cargoes from New South Wales to Whyalla for steel manufacture, returning with iron ore for the steel works of New South Wales differed little from wartime. Similarly, CSR resumed its usual sugar trades from Queensland and Fiji to the refineries of Sydney and Melbourne. The other two integrated owners, the British Phosphate Commission (BPC) and Burns Philp Limited, had not been so fortunate. Importation of normal quantities of phosphate rock from Nauru by BPC was delayed until its wartime shipping losses were made up. Burns Philp's resumption of usual trades to Papua New Guinea and other Pacific Islands was also slowed by the wide wartime dispersion of its fleet.

Intrastate general cargo services from Sydney to the ports north and south, and those between Adelaide and the Spencer and St. Vincent Gulf ports recommenced and

were well patronised. Wartime depletion of its fleet provided the Western Australian government with an opportunity to abandon its loss-making shipping services. However, with the development of the Pilbara more ships were acquired and the services expanded.

**Table 1.2**

**Coastal Cargo Loaded and Discharged by State (tons 000's)**

Year	NSW	VIC	QLD	S.A.	W.A	TAS	N.T	TOT.
1938/39	7,251	3,658	1,190	3,965	452	1,482	29	18,027
1945/46	5,743	3,137	1,105	3,188	721	1,289	14	15,147
1946/47	6,582	3,368	1,180	3,784	645	1,370	21	16,950
1947/48	6,702	3,131	1,106	4,228	567	1,400	26	17,160
1948/49	6,108	n.a	n.a	n.a	n.a	n.a	n.a	-
1949/50	6,073	2,711	1,080	3,837	563	1,298	30	15,592

**Source: Year Books of the Commonwealth of Australia, from 1946- 1954**

Table 1.2 indicates that from 1945 shipping appeared to commence a gradual return to its pre-war position in the Australian transport network. However, as the Table shows, it never attained its former levels because from 1947-48 onwards shipping's cargo volumes declined. One of several reasons that can be postulated for this loss of cargo was the unreliability of shipping services due to delays caused by the industry's turbulent labour relations as unions pressed their claims for improved conditions by strikes that delayed ships and increased time spent in already congested ports.<sup>17</sup> The costs of these delays and concessions to workers previously borne by the Government as the wartime charterer of the ships had to be recouped. After the derequisition of their ships and removal of freight rate control in 1947, owners sought to recover these costs by freight rate hikes that led many clients to transfer their cargo to trucks whenever practical. An indication of the effect on shipping of increased labour costs was provided by the 1954 report of a Government enquiry into

<sup>17</sup> A contrived shortage of labour was a tactic that lost the industry 2382 ship-days in 1951 alone. ASOF Circular F10. 13/1/54, E217/314, NGB. The slow turn around of ships in Australian ports was regarded by the Governments as sufficiently serious to commission an inquiry that blamed inadequate port facilities and delays in cargo documentation as well as industrial disputes. Henry Basten, *Report on the Turnround of Ships in Australian Ports*, CGPS, Canberra, 1952.

stevedoring that estimated that freight rates had risen by a weighted average of 161% from December 1947 to June 1954.<sup>18</sup> By 1950 the volume of general cargo handled through Sydney had fallen from its 1939 level of 1.312 million tons to 0.582 million tons, a fall of 56%, attributed by shipowners principally to the competition of road haulage companies.<sup>19</sup> Competition from road transport received another boost in 1953 after successful legal action by the hauliers Hughes and Vale against the New South Wales Government's taxing of interstate trucking that was declared as *ultra vires* section 92 of the Commonwealth Constitution.<sup>20</sup> By 1950 the state governments' programme of refurbishment and replacement of rolling stock and the introduction of diesel locomotives was well advanced, and as the railways aggressively sought cargo they began price competition with the road hauliers. Shipping, with its high fixed costs, lacked the financial resources to compete and thus lost even more cargo.

A recurring theme during the immediate post-war years was the industry's poor profitability. Illustrating his company's non-dependence on shipping profits Adelaide's chairman remarked in 1946:

The greater portion of your dividend this year therefore comes to you not from your ships but from your ancillary and subsidiary interests<sup>21</sup>

Again, in 1949:

This dividend comes to you as the result of sound procedure followed in past years which has given an income from subsidiary and ancillary interests.<sup>22</sup>

Shipping's financial condition clearly did not inspire the independent shipowners with optimism, although neither Adelaide as a company nor the other ASOF members were actually unprofitable during these years. However, under the immediate post-war standards of disclosure, diversified companies such as the ASOF group seldom identified the results of their diversified operations individually in their published results.

Aside from its comments on freight the report of the Government's 1952 stevedoring inquiry also noted the difficulties that shipowners were experiencing in

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<sup>18</sup> Department of Labour and National Service, *Report of Committee of Enquiry into the Stevedoring Industry-Stevedoring Industry Act 1954*. Part VII, Canberra, 1957, *The Tait Report*.

<sup>19</sup> *New South Wales' Government Year Book 1953* p.105.

<sup>20</sup> P.J. Rimmer, *Freight Forwarding in Australia*, Research School of Pacific Studies, ANU, Canberra, 1970, p. 11.

<sup>21</sup> Chairman's Address, The Adelaide Steamship Company's Annual General Meeting 16/9/46. Z535, NGB.

replacing their old ships, due to low profitability.<sup>23</sup> Thus although their fleets needed modernisation, they invested in only two new ships, imported with Government permission before construction was restricted to Australian yards, but sold eight of their older ships overseas. That this period can therefore be considered overall as one of near stagnation for the industry is supported by the demise in the early 1950's of the three New South Wales intrastate shipping companies.

In late 1949 a Liberal/Country Party Coalition Government was elected on a platform of freedom of action for private enterprise, and offered the private shipowners the unique opportunity to buy the Commonwealth's fleet, now expanded to 29 existing vessels with another 16 under construction.<sup>24</sup> Far from seizing the opportunity to eliminate a potentially powerful competitor, the private companies began negotiations that lasted for six years and created a schism in the ASO ranks. Fears of action by the union movement, concerns that a future Government might build a newer fleet and re-enter shipping as a competitor, lack of financial resources and unsuitability of the ships for ASO trades were some reasons cited for the decision not to buy the fleet. Perhaps, however, an innate conservatism of shipping's senior executives, born of lifelong experience of consensus decision-making through such bodies as the ASOF and ISOA, was also a factor in their decision not to buy the Government out.<sup>25</sup> By 1956 the Government appeared out of patience and withdrew

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<sup>22</sup> Chairman's Address, The Adelaide Steamship Company's Annual General Meeting, 3/10/49 Z535, NGB

<sup>23</sup> "The average profit of the main operators engaged in interstate trade amounted in 1953/54 (the year of highest profit) to 5.4% of the original cost of their vessels and to 3.3% of their estimated replacement cost. Putting aside the role of the ASB as the regulator of freight rates, had rates been determined solely on the costs and earnings of the private operators, the increases in certain rates since December 1947 could have been greater than in fact they were." *The Tait Report*, op. cit. Part XI A, p.124.

<sup>24</sup> A valuable primary source of information on Australian shipping prior to 1961, and particularly the sale of the Government ships, is correspondence between the Australasian Steam Navigation Company in London (AUSN) and its Australian managing agent, the Macdonald Hamilton (MH) partnership in Sydney, and between the Sydney and Melbourne offices of MH itself. These and other material consist of 361 boxes held in deposit, MSS 4548 at Sydney's Mitchell Library (ML). Letters cited generally fall into one of two categories; those from the senior partner of MH, (successively Hamilton, Mackay, Rickards) to the chairman of AUSN (successively Lord Inchcape, Hotblack, Campbell), and the monthly General Letters (Genlet's) from the Secretary of MH to his AUSN counterpart. The ships of the Government's fleet on offer is attached to a letter (MH) Melbourne to (MH) Sydney, 15/3/50 ML. MSS 4548 152/361.

<sup>25</sup> One of the many examples that typify shipping's conservatism is the industry's first refusal in 1944, then reluctant acceptance three years later, of the use of forklift trucks for cargo handling on the waterfront. ("... interstate cargoes do not lend themselves to their use"). M. Tull, American Technology and the Mechanisation of Australian Ports, *Journal of Transport History*, 3<sup>rd</sup> Series, Vol. 6, No:1, March 1985, p.88.

its final offer and, as the ships were essential to the coastal trade, retained them to establish the Australian National Line (ANL) in competition with the private sector.

For the six years that the negotiations lasted the independent private shipowners did little to respond to the threat of road and rail competition by modernising their fleets and business practices. For instance, although the new Government moderated its restrictions on the importation of vessels, during the period of the negotiations the major private independent owners built only eight new ships to the sixteen delivered to the ANL. Few of the vessels the independent owners did build had the technological changes in vessel design and operation now filtering through from overseas, while the newly established ANL and BHP introduced new technology. Talks among the private shipowners also came to nothing on how best to match the commercial practices of road and rail that had a single freight rate and carried goods door-to-door on one document. Meanwhile the independent owners focused on regaining their general cargo trades with only meagre investment in new ships and outmoded business practices. The ASO also declined several invitations from BHP to play a larger part in its bulk trades in which the ANL already held a strong position.

With the establishment of the ANL, internal rivalry returned to Australian shipping for the first time since 1902 and was therefore an element new to the industry of 1945.<sup>26</sup> Over the years Australian shipping had structured itself into three non-competing segments; the interstate private companies of the ASO cartel and the ISOA that occupied separate well-defined trades, the integrated shipowners that carried their own cargoes and the intrastate companies. The ASO did not compete intrastate, the ANL was precluded by its Act from engaging in intrastate trades, and the trades of the integrated companies were their own. Thus the only significant rivalry was that between the private interstate owners and the ANL for the general cargo trades in which both parties faced the competition of road and rail. The rapid advance of ANL to the position of shipping's dominant player in the five years

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<sup>26</sup> Following a period of ruinous competition, five members of the ASOF formed the "Collins Pool" in 1902 to rationalise services and were prosecuted in 1911 for anti-competition offences under the *Industries Preservation Act*. Although the prosecutions failed, the First World War intervened and it was not until 1921 that a pool was reformed as the ASO by the same companies with the Government's encouragement. N.L. McKellar, *From Derby Round to Burketown*, Queensland University Press, Brisbane, 1977, pp.339-344.

following its creation has been attributed to superior management and planning backed by a ready availability of Government funding rather than the merciless price competition seen in many industries.<sup>27</sup> Also, the fact that the ANL acquired its fleet of 46 ships in 1956 for \$30 millions after the Government had rejected an offer of \$42.5 for 51 vessels existing or under construction from the private owners in 1952 perhaps indicates the Line acquired its fleet cheaply. After the purchase negotiations concluded in 1956, the ASO made more determined attempts to improve services, to diversify their shipping activities and to cut costs. Cargo was unitised on pallets or by pre-slising and small containers were introduced, but were still carried by conventional ships and loaded and discharged by conventional means. Sales staff was employed to canvass for business, and at last a simplified system of freight rates was introduced similar to that applied by road and rail.<sup>28</sup>

**Table 1.3**

**Coastal General Cargo Loaded in Capital Ports 1957—1964 (Tons 000's)**

Year	1957	1958	1959	1960	1961	1962	1963	1964
Syd	378	389	359	347	246	191	182	185
Melb	293	509	521	466	342	286	297	320
Bris	98	80	70	54	58	70	59	58
Adel	236	224	239	159	122	70	54	49
F'tle	120	109	47	42	99	91	88	103
Hob	173	82	85	86	80	75	76	70
<b>Total</b>	<b>1298</b>	<b>1393</b>	<b>1321</b>	<b>1154</b>	<b>946</b>	<b>783</b>	<b>756</b>	<b>785</b>

**Source: Annual Reports of the Australian Stevedoring Industry Authority for relevant years**

However, as Table 1.3 shows, these measures still failed to halt the flow of ASO's general cargo away from shipping, both private and Government. In 1959 the ASO's

<sup>27</sup> It has also been suggested the ANL's membership with the ASO of the Joint Traffic Committee enabled the Line to gain footholds in the private owners' trades. The planning and foresight of ANL's management in pursuing opportunities that were immune from land competition, such as the Tasmanian and bulk trades, offset ANL's loss of general cargo and also contributed to its success. N.L. McKellar, *Derby Round to Burketown*, op. cit. pp. 617-619. The \$30 millions for which the ANL's 46-vessel fleet was made available also appears low compared with the \$42.5 millions for 51 ships offered by the shipowners and refused by the Government two years earlier.

<sup>28</sup> To one that charged all cargo in the ASO's Adelaide to Brisbane trade measuring less than 80 cubic feet per ton at the cheaper deadweight rates. Letter to ASO Chairman 7/1/59. ML. MSS.21/361

financial losses reached \$1.016 millions.<sup>29</sup> As they continued to rise, the schism among ASO members that had appeared during the negotiations for the purchase of the Government ships widened and culminated in 1961 with the winding up of the cartel. Its two remaining members, Adelaide and McIlwraith, pooled their fleets in a new company, Associated Steamships Proprietary Limited (ASP), leaving Smith to trade independently. In 1964 the ISOA's members also decided it no longer served a useful purpose and it too was wound up. In 1956 the ASO companies also formed a new company, Bulkships Limited (Bulkships) and equipped it with two modern ore carriers in response to BHP's offers to increase participation in its heavy bulk trades and in 1961 the last two passenger ships that were losing heavily were sold.<sup>30</sup>

From the early 1960's preparations began for the introduction to Australian wharves and shipping of containerisation, arguably the most important development in postwar marine technology in which the new company, ASP, was a front runner internationally. By 1969 it had three container vessels with which it operated a successful service from Brisbane to Fremantle via Sydney. The likely effects of technology were not lost on the marine and waterfront unions and introduced a new dimension to labour relations.<sup>31</sup> As the Secretary of the Seamen's Union of Australia (SUA) had earlier put it,

The tonnage [of ships] coming on to this coast is greater than the tonnage which has gone off, but the number of men to man that increased tonnage will be considerably less than it took to man the old tonnage."<sup>32</sup>

The maritime unions seldom accepted peacefully the effects of technical advance and the leverage of their protest strikes was increased by the high capital cost of the new vessels they delayed in protest. These characteristics of technological advance - high capital costs and vulnerability to delays - served to deter from investment in shipping companies without sound finances and a strong commitment.

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<sup>29</sup> General letter 6/60 MH (Sydney) to AUSN (London) 8/4/60 ML. MSS 4548 159/361.

<sup>30</sup> In the years from 1946 and 1950 numbers of air passengers increased by almost 33% from 509,190 to 1,499,816. *Year Book of the Commonwealth of Australia 1952* p.188.

<sup>31</sup> The Secretary of the Waterside Worker's Federation explained that the containership *Kooringa* was capable of loading and discharging 7,600 tons of cargo in 80 man hours, a task that would have occupied 5,900 man hours if the cargo were carried in a conventional vessel .C.H. FitzGibbon, *Technological Changes in the Stevedoring Industry*, paper delivered to the ILO, Geneva, February 1967.pp. 102-92, Vol 1, NGB.

<sup>32</sup> Report to SUA Convention 1956 by E.V Elliott. CSOA Circular 121 6/7/56. E127/163, NGB.

## *The Australian Shipping Industry*

Twenty years after the end of the war and ten after the creation of the ANL, the types, characteristics and ownership of the vessels comprising the Australian fleet had changed dramatically. Instead of the general purpose unit of between three and four thousand gross tons, the fleet's most common vessel was now the specialised carrier of dry or liquid bulk cargoes. The fleets of the independent sector comprising the ships of the former ASO and ISOA members had declined from 81 to 33, while the fleets of the integrated shipowners had remained almost static in numbers and proportion of the national fleet. The number of ships owned by Federal and State governments had, however, almost tripled over this period. In the early 1960's the Australian mining industry began to expand significantly and Australian flag tankers were introduced to the coastal trades, firstly by R.W. Miller Limited and then the major oil companies. Thus, by 1966, the conventional ships of 1945 had been replaced by tankers and dry bulk carriers in the service of oil, mining and manufacturing companies, and the general cargo trades were now operated by specialised unit load vessels. The oil and mining companies that owned or chartered the bulk fleet soon became a significant new element in postwar Australian shipping as they replaced in importance the rapidly declining number of general cargo shippers. These new clients usually appointed Australian companies as managers of their vessels. This was an arrangement that grew in popularity as the size of the bulk fleet increased, and a substantial ship management sector developed that came to occupy an important place in Australian shipping. The trend towards specialised bulk shipping was accompanied by a corresponding trend towards larger ships confirmed by a decrease in vessel numbers from 180 to 142 and an increase in total gross tonnage from 521,633 to 812,813.<sup>33</sup> Over this twenty-year period the Australian trading fleet's composition altered in favour of government shipping, particularly the ANL, because of the 143 old and obsolete vessels sold only eight were owned by the ANL that also bought 37 of the new ships delivered by Australian shipyards and four more from overseas.<sup>34</sup> These changes also reduced to 39 the number of Australian shipping enterprises, of which only eight owned three or more ships without ties to their owners' main business.

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<sup>33</sup> Department of Shipping and Transport, *Australian Shipping and Shipbuilding Statistics 19<sup>th</sup> Edition*, Maribyrnong, 1966 p. 3.

During the next few years the face of Australian shipping, private and Government, continued to change. The coastal container service of Associated Steamships (ASP), the largest of the six independent private owners, was losing money heavily by 1974.<sup>35</sup> The cause was competition from the recently completed Indian Pacific service of the Government's Australian National Railways that maintained its freight rates in the economic climate of high inflation then prevailing.<sup>36</sup> Unable to compete on such terms ASP sold its container fleet overseas, so ending the last of the mainland general cargo services offered by an independent company and thereafter employed its resources as a ship manager. After the ASO's, demise Smith, another of the non-government owners, abandoned the risks of the general cargo trades and engaged only in long-term charters in the dry bulk and tanker trades. In 1971 Australia's largest road haulier, Thomas Nationwide Transport Limited (TNT), a substantial shareholder in Miller, took a 25% share in Bulkships and bought a 50% shareholding in the ailing Union Steamship Company of New Zealand Limited (Union). The advent of TNT brought to Australian shipping a more aggressive management style than it had been accustomed to and TNT quickly expanded further into shipping until by 1980 it became the largest Australian shipowner. The fleet of Holyman, whose principal competitor in the Tasmanian trades was ANL, had been reduced to three ships by 1964. Its financial position continued to worsen because it was unable to raise its freight rates in an inflationary climate, while those of ANL were held down while awaiting ministerial permission that was often long in coming. Thus Holyman reduced its fleet to one vessel and in 1985 ceased its shipping services.

, The ANL was profitable for the first fifteen years of its history until its run of profitability ended in 1971. The Government had recently changed the Line's commercial focus and designated it as a 'political instrument' which has been suggested as a reason for the loss.<sup>37</sup> There were, however other factors. In 1969 the ANL had entered the profitable international cargo liner trade between Australia and Japan with a Japanese partner. Entry to the Australia and Europe trade with a British

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<sup>34</sup> Department of Shipping and Transport, *Australian Shipping and Shipbuilding Statistics* for relevant years.

<sup>35</sup> The six were Associated Steamships(ASP) and Bulkships, both owned by McIlwraith and Adelaide, ANL, William Holyman Limited (Holyman), R, W Miller Limited (Miller), Union and WASSS. *Australian Shipping and Shipbuilding Statistics* (17<sup>th</sup> Edition ), ?DATE, Table 9.

<sup>36</sup> *The AFR*, 22/7/75 p.4.

partner followed soon after but in 1970-71 this trade suffered its second year of heavy losses and the Line also lost \$2 millions in revenue due to industrial disputes.<sup>38</sup> Subsequently the ANL also entered five other international trades between Australia and Korea, the Philippines, Taiwan, Southeast Asia, and then finally that with New Zealand.

**Table 1.4**

**Annual Profits (Losses) of ANL 1971-80 in \$000's: Cargo Carried in tons 000's**

Y/E	Net Profit	Cargo	Y/E	Net Profit	Cargo
1971	(2,524)	8,655	1976	(9,440)	n.a
1972	1,891	7,815	1977	3,889	9,101
1973	2,613	8,969	1978	5,692	10,386
1974	1,693	9,307	1979	(4,708)	12,873
1975	(9,953)	n.a	1980	(7,989)	13,000

**Source: ANL Annual Reports for relevant years**

Following the oil crisis of the early 1970's the ANL encountered heightened competition in its overseas trades. Thus as Table 1.4 shows the loss of 1971 was only the first of several more between 1972 and 1980 for which ANL's Annual Reports often blamed labour problems and international recession in which large players and non-conference lines alike cut freight rates to win scarce cargo.<sup>39</sup> This made it increasingly difficult for the Line to service its high interest debt that by 1979 was reflected in its high gearing ratio of 14.2 to 1<sup>40</sup>

The ANL's financial condition was also troubling for the industry as a whole because by 1981 its 31 ships of 1.277 million tonnes deadweight represented approximately 30% of the whole Australian merchant fleet of 105 ships by number and 40% of its carrying capacity. It was thus foreseeable that a demise of ANL due to the withdrawal of a future Government from shipping would leave a gap of

<sup>37</sup> Sir John Williams, *So Ends This Day*, J.P. Williams, Melbourne, 1981, p.213.

<sup>38</sup> ANL, *Annual Report 1971*, pp. 3-6.

<sup>39</sup> ANL's *Annual Report* for 1980 attributes a loss of \$3.1 millions to a dispute with wharf labour and the Report for 1983 mentions a loss of \$3.508 relating to on-board strikes that "... is a considerable improvement in terms of the figures for last year."

<sup>40</sup> ANL, *Annual Report 1978*, p.3.

proportions that the few remaining independent companies might have neither resources nor will to fill.

Meanwhile, as Table 1.5 shows, coastal trades became increasingly containerised during the 1970's as means were developed of handling most items by this versatile system that reduced the number of ships required.

**Table 1.5**  
**Coastal Non-Bulk (General) Cargo Loaded in Capital Ports 1971 to 1977**  
**(Tonnes 000's)**

Year	1971	1972	1973	1974	1975	1976	1977
<b>Syd</b>	99(450)	80(293)	14(344)	33(332)	8(361)	13(324)	18(328)
<b>Melb</b>	100 (778)	103(750)	70(825)	95(1063)	116(1160)	51(1067)	2 (963)
<b>Bris</b>	74(116)	59(147)	23(117)	44(92)	45(75)	55(55)	50(30)
<b>Adel</b>	39(31)	25(59)	12 (105)	-(123)	n.a (n.a)	- (136)	-(134)
<b>F'tle</b>	41(126)	144(289)	174(255)	269(164)	251 (132)	200(44)	161(-)
<b>Hob</b>	57(238)	47(267)	44(286)	36(307)	18(298)	23(326)	32(370)
<b>Total</b>	780(1739)	637(1805)	472(1942)	472(2081)	438(2026)	342(1952)	290(1825)

**Source: Annual Reports of Australian Stevedoring Industry Authority for relevant years.**

**Note: Figures in parentheses denote containerised cargo**

New trades also developed in the mining and refining of bauxite and its smelting into aluminium in which both the ANL and private companies participated; other miners operated their own vessels. The ANL built four large bulk carriers for the international iron ore trade, BHP built several large vessels to export coal and iron ore from its mines and the oil companies introduced three large Australian tankers for importation of crude oil.

Between 1966 and 1981 the vessels of the Australian fleet had reduced from 142 to 93 and their characteristics had altered. The increase in their average size is apparent from the increase in the national fleet's gross tonnage from 812,813 to 1,953,565 gross tons (240.3%) and its deadweight tonnage from 1,087,259 to 3,155,269 (290.2%). The changes in the makeup of the coastal fleet prompted by

these changes can be seen in Table 1.6 that illustrates how the proportion of vessels engaged in Australia's general cargo trades fell from 47.2% to 26.8 % over this period, attributable in part to the introduction of technology. The Table also shows that by 1981 the bulk trades, liquid and dry, coastal and international, had developed to comprise 71% of the fleet.

**Table 1.6**

**Major Australian Trading Fleet by Ownership and Vessel Type (June 1981)**

Owner	Dry Bulk	Tankers	Gen. Cargo	Pass.	Total
Independent	4	7	5		16 (17.2)*
Intrastate/Minor	4				4 (4.3)
Integrated	26	1			27 (29.0)
Foreign	3	8			11 (11.8)
Gov't	13**		20	2	35 (37.7)
<b>Total</b>	<b>50 (53.8)</b>	<b>16 (17.2)</b>	<b>25 (26.8)</b>	<b>2 (2.2)</b>	<b>93 (100)</b>

Source: Australian Shipping and Shipbuilding 34<sup>th</sup> Edition (Transport Australia)

Note: \* Figures in parentheses show percentages of totals.

\*\* Includes ships of the Western Australian government fleet.

Behind the data of Table 1.6, however, was an industry that was far from sound. Independent companies now owned only 21% of the Australian fleet and seemed disinclined to invest further. In 1980 the ANL's international liners traded for the first time at an overall loss, "most unsatisfactory freight rates continued" in the overseas bulk trades and industrial disputation cost it \$11.5millions in ship delays.<sup>41</sup> Concerned at the condition of Australian shipping, the Government took the first of a series of initiatives to revitalise shipping that extended for fifteen years.<sup>42</sup> Their principal objective was to make Australian ships internationally competitive by reducing their crew numbers to levels comparable with those of other OECD

<sup>41</sup> ANL, *Annual Report 1980*, pp. 4, 5.

<sup>42</sup> These were successively the Committee on Revitalisation of Australian Shipping of 1980 chaired by Sir John Crawford (the Crawford Committee), the Maritime Industry Development Committee (MIDC) of 1986 and the Shipping Industry Reform Authority (SIRA) of 1989 that met until 1995.

countries. Shipowners and the maritime unions cooperated with the initiatives and jointly accepted the recommendations of their reports whereupon the Government agreed to provide financial assistance similar to that given by OECD governments to their shipping industries. Thus the work of these committees was successful in that they removed the capital cost disadvantage under which Australian ships had competed with those of other OECD nations, reduced their crews from an average of 30.7 to 20 by 1992 and largely eliminated shipboard industrial disputes.<sup>43</sup> These successes were not however sufficient to close the competitive gap in international trades between OECD and Australian ships that, due mainly to their higher crew costs, remained at a cost disadvantage.<sup>44</sup> However, none of the few independent private owners remaining applied for the Government's grants now available to build new ships. Adelaide had left the industry in 1975 and in the mid- 1980's Bulkships, McIlwraith and Smith established successful shipping operations offshore and ceased investment in domestic shipping.

By the 1990's the major trades in which the Australian fleet engaged and their routes had changed as well as the ownership and characteristics of its vessels. In the pre- and postwar years the most important coastal trades were the ASO's network of regular general cargo services that extended eastwards and westwards from Melbourne and along the East coast to the capital cities and major ports where transshipment could be made to smaller cities. By 1992 the only important general cargo trades remaining were the Tasmanian trade that accounted for 29% of all general cargoes loaded and 39% of all discharged, the WASSS' trades from Fremantle and intermediate ports to Darwin, and the steel product trade from Port Kembla to Westernport.<sup>45</sup> Meanwhile the ANL's overseas liner trades carried approximately 2 million tonnes of general cargo in imports and exports annually in the competitive conditions of a shipping recession that made profits difficult to achieve.

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<sup>43</sup> Shipping Industry Reform Authority, *Report of the Shipping Industry Reform Authority, June 1992*, Canberra, 1992, p.8, p.15.

<sup>44</sup> Ivan Deveson, *Report of the Shipping Reform Task Force (April, 1989)* Appendix B, Table 1, pp, 24,25. The Table estimates that a competitive gap of \$3,045, still mainly attributable to crew costs, remained between the daily operating cost of an Australian ship and its average OECD equivalent.

<sup>45</sup> Bureau of Industry Economics, *International Performance Indicators; Coastal Shipping, Research Report 55*, BIE, AGPS, Canberra, pp.13,14.

The bulk trades occupied the most important place in coastal shipping by 1992 and had stabilised at approximately 90% of the total marine transport task. These can best be summarised in table form.

**Table 1.7**

**Principal Areas of Bulk Coastal Shipping Activity 1992**

<b>Route</b>	<b>Commodity</b>
<b>Dry Bulk Sector: 22.7 million tonnes, 59% of bulk activity</b>	
N.W. of W.A to N.S.W	Iron Ore
Weipa to Gladstone	Bauxite
Between N.S.W. Ports	Coal/coke
Port Kembla to Whyalla	Black coal
<b>Liquid Bulk – 10.7 million tonnes, 41% of bulk activity</b>	
Westernport to N.S.W., Qld, S.A.	Crude oil
Port Bonython to N.S.W., S.A., W.A.	Crude oil/condensate
Barrow Island to N.S.W., S.A., W.A.	Crude oil
Brisbane to Qld., N.S.W.	Petroleum products
Melbourne/Geelong to N.S.W., Vic, Qld, S.A.,Tas,	Petroleum products
Fremantle to N.S.W., Vic, Qld	Petroleum products
Sydney to N.S.W., Vic, Qld	Petroleum products

*Source: Submission to Industries Assistance Commission Concerning its Inquiry into Coastal Shipping, 1987, p.16*

There were also a number of lower volume dry bulk cargo trades among which the most important were the carriage of alumina from Gladstone to Newcastle and Bell Bay and from Kwinana to Geelong. BHP's steel works at Port Kembla and Newcastle generated cargoes of 0.5 million tonnes of dolomite annually and that at Whyalla 1.2 million tonnes of coal. CSR's trades to Sydney, Melbourne, Adelaide and Fremantle with Queensland sugar and to the Eastern states with gypsum from Thevenard employed three ships and that intrastate from Catherine Hill Bay to Sydney for its power stations another two. The ANL abandoned its unprofitable Japanese iron ore trades, although BHP continued successfully to engage in that trade and in the export of coal. Two ships also operated in minor overseas bulk trades; one from Gladstone to Bluff in New Zealand with alumina, the other with sugar to South East Asia. In the international oil trades four large tankers imported crude oil from the

Persian Gulf and Indonesia while another exported Australian crude oil to South East Asia, and one traded world wide in its owner's business. By 1992 several large liquefied natural gas tankers also ran regularly from north-west Australia to Japan. Table 1.8 summarises the task of the Australian fleet between 1989 and 1993.

**Table 1.8**  
**Coastal and International Cargoes 1989-93 Tonnes Mils.**

Year	1989-90		1990-91		1991-92		1992-93	
	Dom	Int	Dom	Int	Dom	Int	Dom	Int
<b>Dry Bulk</b>	22.5(59)	3.9(36)	21.1(61)	4.4(38)	22.7(64)	3.9(34)	23.0(64)	5.2(30)
<b>Liqu.Bulk</b>	11.6(31)	4.4(42)	10.6(30)	5.1(44)	10.7(30)	5.9(50)	10.5(29)	9.9(58)
<b>Non-Bulk</b>	3.9(10)	2.3(22)	3.0(9)	2.1(18)	2.2(6)	1.9(16)	2.4(7)	2.1(12)
<b>Sub Total</b>	38.0(100)	10.8(100)	34.7(100)	11.6(100)	35.6(100)	11.7(100)	35.9(100)	17.2(100)
<b>All Cargo</b>	48.4		46.3		47.3		53.1	

Source: Annual Reports of Australian National Maritime Association, 1989-93

However, by 1995, 88% of all dry, and 91% of liquid bulk cargoes shipments were "in house," that is integrated with their owners' main business, leaving only a meagre portion of these trades for the independent shipping companies.<sup>46</sup> Meanwhile, as Table 1.9 shows, the ANL's financial and operating position was weakening.

**Table 1.9**  
**ANL Indicators: Profits, (Losses), Accumulated Losses and Fleet 1981-1990**

Year	Profit (Loss)	Acc.Loss	Vessels	Year	Profit (Loss)	Acc.Loss	Vessels
1981	(7.08)	(17.75)	31	1986	18.99	(101.45)	23
1982	2.54	(14.72)	33	1987	39.49	(61.95)	17
1983	(26.19)	(40.1)	33	1988	3.77	(65.00)	15
1984	(67.15)	(129.50)	33	1989	5.99	(60.90)	14
1985	19.05	(110.45)	27	1990	12.07	(48.84)	14

Sources: ANL Annual Reports and *Australian Shipping* for relevant years.

Following the oil crisis of 1973 a prolonged depression in world shipping developed. Apart from cutting freight rates international shipowners more powerful

than the ANL also rationalised their services as they competed for scarce cargo. In this highly competitive environment the ANL struggled to pay its interest bills and first in 1983 and again in 1985 the Government had to provide financial assistance. A management initiative to reduce costs by selling unprofitable vessels and cutting staff did little to improve the ANL's overall position in what its Chairman labelled " ... the worst depression in world shipping since the 1930's."<sup>47</sup> By 1990 a domestic recession in Australia reduced import cargoes and uncommercial competition continued in ANL's liner trades.<sup>48</sup> The next year in a general downturn in world trade and worsening domestic recession the Government announced it would sell 49% of its Line. Due to lack of interest the offer was changed to one of total sale that prompted widespread industrial action on ships and in ports throughout Australia. The sale of the Line was eventually completed in 1998 by selling piecemeal the ships and several businesses that comprised ANL. Meanwhile Smith had withdrawn from shipping in 1995 and the domestic and international recessions experienced by the ANL led to the demise of McIlwraith and Bulkships in 1993 and 1999 respectively.

**Table 1.10**  
**Characteristics and Control of Major Australian Vessels in 2000**

<b>Control*</b>	<b>Tankers</b>	<b>Bulk Carriers</b>	<b>Gen Cargo</b>	<b>Passenger</b>
<b>Oil Coy's</b>	<b>9</b>			
<b>LNG</b>	<b>4</b>			
<b>Mining</b>		<b>10</b>		
<b>Manufacturing</b>		<b>14</b>	<b>2</b>	
<b>Govt</b>				<b>1</b>
<b>Total</b>	<b>13</b>	<b>24</b>	<b>2</b>	<b>1</b>
<b>Independent</b>	<b>2</b>	<b>3</b>	<b>9</b>	
<b>Total</b>	<b>15</b>	<b>27</b>	<b>11</b>	<b>1</b>

**Source: Australian Sea Freight 1999- 2000 (Bureau of Transport and Regional Economics, Canberra, 2000)**

**Note: \*Control implies ownership or long-term charter.**

Changes in the Australian fleet's control character by 2000 are shown in Table 1.10.

<sup>46</sup> ANMA, *Annual Report of the National Maritime Association 1996*, p.19.

<sup>47</sup> ANL, *Annual Report 1986*, p.5.

## *The Australian Shipping Industry*

With the withdrawal of McIlwraith and Bulkships, the demise of the ANL and WASSS, the size of the Australian trading fleet was further reduced and a shortage of Australian flag shipping developed. To overcome this shortfall the Government liberally issued foreign flag ships with Single Voyage Permits (SVP's) and Continuous Voyage Permits (CVP's), the number of which increased from 142 to 895 per annum between 1991 and 2000. Between 1994 and 2000 the fleet's deadweight capacity shrank from 3.50 to 2.83million tonnes and its numbers to 23 minor and 54 major vessels whose types and ownership are shown in Table 1.10

Analysis of the ownership of these 54 major vessels shows that by 2000 few private independent companies remained in shipping and most of the fleet by far was employed in the dry and liquid bulk trades of the manufacturing, mining and oil industries. Following announcement of the ANL's sale and withdrawal of Government assistance, investment in shipping markedly declined from its 1995-96 high of \$506 millions after the ships already ordered were completed.<sup>49</sup>

Over the years from 1945 the cumulative effect of changes in the Australian shipping industry shrank its broad historical basis as a supplier of a range of marine transport services to a wide spectrum of users to that of a smaller industry mainly providing shipping to mining and manufacturing. This transition was accompanied by a decline in the industry's status and profitability that provided the voluntary, or involuntary, reason for the withdrawal of many companies. Its losses finally caused the Government's sale of the ANL that because of its prominence had a far-reaching effect on the industry's future. The ANL's management undoubtedly held the increased competition, some unfair, that developed in the depressed conditions following the 1973 oil crisis as substantially to blame for its condition. But the ANL was part of an industry with long-term structural, commercial and management weakness that reduced its competitiveness. The Line inherited some of these characteristics, the effects of which were, in its case, compounded by a poor selection of overseas trades and under-funding.

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<sup>48</sup> ANL, *Annual Report 1990*, p.14.

<sup>49</sup> Industry investment decreased to a negative \$43 millions (1996-97), \$11 millions(1997-98), \$29 millions (1998-99) and negative \$98 millions in 1999-2000. Australian Shipowners' Association, Submission of Australian Shipowner's' Association to the Senate Committee on Rural and Regional Affairs, 2000, ASA files, Melbourne.

Because of these weaknesses the industry's independent companies and the ANL failed to develop the competitive strategy and qualities needed to meet six competitive forces that appeared during and immediately after the Second World War. These forces, Government in its role of industry participant, restrictions on the supply of ships and labour, strengthened competition from substitutes, a change in shipping's users, technical advance and increased rivalry provided the proximate causes of shipping's transition and decline, including the ANL's.

This thesis examines the effects on shipping's competitiveness and profitability of these six elements in five chapters. These sequentially cover the periods from 1945 to 1949, from 1950 to the dissolution of the ASO in 1964, from 1965 until the first Government revitalisation initiative of 1985, and from then until 2002 when the effects on the industry of ANL's sale had become manifest. It is, however, necessary first to examine the characteristics of the industry in 1945, then the stock of shipping literature to ascertain if others have analysed the post-war transition and decline of the industry and then to establish a framework to guide the analysis of this thesis.

## **CHAPTER TWO**

### **AN INDUSTRY IN SUSPENSION**

An analysis of changes that occurred in Australian shipping after the Second World War requires as a departure point an outline of the institutions, players and their trades that comprised the industry's structure in 1945.

When the Second World War ended the Australian shipping industry was still predominantly privately owned. Public ownership was confined to eleven ships built for the Commonwealth Government during wartime and two vessels owned by the Western Australian government. The private sector comprised three segments the first of which, and largest was the interstate passenger and general cargo services operated by ships owned by members of the Australasian Steamship Owners' Federation (ASOF) and the much smaller and less important Independent Steamship Owners' Association (ISOA). A number of minor owners of one or two ships without affiliation to the two major associations also operated in interstate and intrastate trades. These firms are differentiated as 'independent' in this thesis to differentiate them from others in the private sector such as its second segment, which comprised fleets integrated with the manufacturing, mining and trading operations that were the main businesses of their owners. The third segment was the intrastate fleets that operated almost exclusively within the coastal waters of the states in which they were based. All of these fleets were privately owned, except the Western Australian State Shipping Service (WASSS), owned by its government, and the Federal Government's twelve-vessel fleet, the first deliveries of a large building programme begun in wartime.

#### **The Interstate Segment**

The pre-war commercial interstate passenger and cargo trades of the first segment's ASOF and the ISOA did not significantly overlap. Thus as little, if any, rivalry existed between the two groups they enjoyed mutually good relations and cooperated with each other in matters of joint interest. In 1945 the aspirations of both associations was to regain their pre-war trades as soon as peace time operating conditions permitted. The ASOF group derived its dominant position from the near-monopoly it held on the regular, advertised coastal passenger and general cargo

services it operated between all major population centres.<sup>1</sup> The history of the development of the ASOF and its associates is relevant to the long run changes that occurred in Australian shipping.

The late 1890's were years of intense freight rate cutting between the major companies as they competed for available cargo. In 1899 six of them, who were already members of Sydney and Melbourne shipowners' associations, united to form the ASOF. One of its most important functions was to coordinate its members' labour affairs to prevent individual companies being targeted by claims from the marine unions. The ASOF had no written rules of association and reached its decisions by consensus rather than voting rights. With the introduction of the *Industrial Arbitration Act* in 1905 that function passed to the Commonwealth Steamship Owners Association (CSOA) staffed by the ASOF and registered under that Act to represent its members' industrial affairs. Thereafter the ASOF became the public voice of the group on policy matters and the CSOA on their industrial affairs.<sup>2</sup> The years of intense competition had not, however, been forgotten. Thus a proposal developed for pooling fleets to reduce administration costs and, by coordinating the introduction of new tonnage, prevent recurrence of surpluses that could trigger a freight-rate war. This led in 1902 to an extension of the ASOF members' association under an agreement that formed the Collins group.<sup>3</sup> After some teething troubles the group rationalised members' interstate general cargo, coal distribution trades, some intrastate services and agreed on common freight rates. A prosecution by the Commonwealth Government in 1909 of some of the Collins members for anti-competitive trading in respect of the coal industries that the shipowners eventually won nevertheless led to the termination of the pool. During the First World War shipping was requisitioned by the Government and operated as a pool. The Government considered the arrangement sufficiently successful for it to encourage the shipowners to revive a Collins-type agreement. After negotiations during which the companies insisted that such an association should be free from Government criticism

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<sup>1</sup> As noted in Appendix One, the ASOF companies collectively owned 70 of the 180 vessels comprising the Australian merchant fleet of 1945. The appendix has been derived from Barry Pemberton, *Australian Coastal Shipping*, op. cit, Appendix II, pp. 251-299.

<sup>2</sup> "... the ASOF confined itself to dealing with such things as the impact of Commonwealth and State legislation, uniform practices in documentation, the competition of overseas lines, and the multitude of problems brought to the owners by the Navigation Act." N. L. McKellar, *From Derby Round to Burketown*, op. cit. p. 204.

<sup>3</sup> So called because the members offices were located in, or close to, Melbourne's Collins Street.

or prosecution, freight rates would remain at current levels and there would be no competition from a Government line, the six companies of the Collins group came together again in 1921 as the Associated Steamship Owners (ASO), initially under a two-year agreement that became continuing.<sup>4</sup>

Although the ASOF and ASO operated separately, their common memberships guaranteed a commonality of interests, policy and commercial affairs. Even when tested by disagreement and economic recession the ASO existed until 1964, the ASOF until 1985 and the CSOA into the 1990's. During these years the group's members derived obvious benefits from membership of a cartel whose existence was accepted by the Government and from sharing the costs of information, ideas, effective industry representation and finding employment for their ships. In the long term, however, the ASOF, CSOA and ASO virtually eliminated competition and managerial independence, perhaps inducing a complacency that contained the seeds of their members' failure to meet the challenges of the post war years.

In 1945 the ASOF's members were:

- a) The Adelaide Steamship Company Limited (Adelaide)
- b) The Australasian United Steam Navigation Company Limited (AUSN)
- c) Australian Steamships Proprietary Limited, a wholly owned subsidiary of Howard Smith Limited (Smith) through which it conducted its shipping business
- d) Huddart Parker Limited (Parker)
- e) McIlwraith McEacharn Limited (McIlwraith)
- f) The Melbourne Steamship Company Limited (Melbourne)
- g) The Union Steamship Company of New Zealand Limited (Union)
- h) James Paterson and Company Proprietary Limited (Paterson).<sup>5</sup>

Of these, AUSN was listed on the London Stock Exchange but was operated in Australia by Managing Agents, the McDonald Hamilton (MH) partnership, and Union was a wholly owned subsidiary of the British company Peninsular and Oriental Steam Navigation Company Limited (P&O). The other companies were listed Australian public companies. The interstate passenger and general cargo trades were those preferred by the ASOF's members, although some also had intrastate bulk

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<sup>4</sup> In his letter of 28/7/21 to Hamilton (MH), AUSN's Australian managing agent, Lord Inchcape, chairman of AUSN, acknowledges advice of the ASO's recent formation. ML.MSS. 4548 162/361.

<sup>5</sup> Ibid. p. 203.

trades which they conducted separately from the ASOF and its affiliated organisations. Shipping was an important part of these companies' businesses but not the only one.<sup>6</sup>

The ASOF's costs were borne by its members according to the proportion of the total gross tonnages of their vessels 'entered' in the Association to the total tonnages of all vessels entered.<sup>7</sup> Because of the informality of the association, gross tonnage did not, however, determine voting rights. In the absence of written voting, by custom and practice its decisions were arrived at by consensus.<sup>8</sup> An obvious potential defect was that decisions so reached could reflect the views of the most conservative members or of the smaller members lacking resources to undertake bold changes. That the ASOF survived until 1964 with its founding membership and practices still intact reflects the innate conservatism of the member companies' management. But their faith in unity of purpose as the best protection for their interests also perhaps indicated an inflexibility of attitude that might be tested if any challenges to the ASOF's principles developed.

The registration of the CSOA under the *Commonwealth Conciliation and Arbitration Act* required it to have formal and registered rules that permitted decisions to be carried by a majority vote.<sup>9</sup> However, it adhered to the ASOF practice of

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<sup>6</sup> As their Annual Reports show, all ASO companies had interests in coal mining and distribution, while most owned or had shareholdings in stevedoring companies in all major Australian ports. J. Spiers, *The Australian Stevedoring Industry*, M. Com. Thesis, University of Melbourne, 1970, p.55. Four companies, Parker, Adelaide, Union of the ASOF and the minor company Holyman, each owned 20% of Australian National Airlines. M. Page, *Fitted for the Voyage, the Adelaide Steamship Company Limited 1875-1975*. Rigby, Adelaide, 1975, p.239. In addition to its coal, airline and stevedoring interests, Parker had invested in Melbourne real estate and its chairman's address to shareholders at the Annual General Meeting of 22/3/46 mentions "Other shareholdings valued at 934,497 pounds ..." and also interests in Amalgamated Wireless Australia Limited. Huddart Parker Papers, Melbourne University Archives, Group 1, File 11. Apart from coal, stevedoring and engineering, Smith also included sugar refining among its diversified interests. Among the ISOA members, Miller's ownership of coal mines provided the reason for its ownership of vessels, Patrick was a major stevedoring company and Interstate was an adjunct to BHP's fleet. Given the accounting standards required of companies in the early post-war years, this diversity of interests makes the establishment of the profits (or losses) due to shipping operations difficult to establish from published information.

<sup>7</sup> In 1945 deadweight tonnage, a measure of the weight of a ship's cargo capacity, was in tons of 2140 pounds avoirdupois for Australian ships. Gross tonnage, a measure of internal volume used for assessing port charges, was in tons of 100 cubic feet. After the introduction of the metric system in 1966, these measurements became respectively tonnes of 1,000 kilograms and cubic metres divided by 2.83. No standardisation has been made in this thesis; tonnages mentioned are those of the system in use at the time of the reference.

<sup>8</sup> Because the ASOF had no written rules of association and those of CSOA were provided only to its members, no copies have been discovered in archival collections. In the absence of written sources, this account of their operations has been based on information provided by Mr. P.S. Eutrope, a former Manager of ASOF, and of its associate CSOA.

<sup>9</sup> In references hereafter, the general short term "Arbitration Act" is used.

consensus, for the larger members regarded the danger that the smaller companies might abandon industrial unity if policy was determined by voting power as a more serious risk than their lack of control over policy. The CSOA also operated a Protection and Indemnity (P&I) scheme funded mutually by its members that provided financial support to those whose vessels were delayed by strikes in resisting industrial claims when resistance was agreed as being in the common interest.<sup>10</sup> Under the CSOA's constitution the members contributed to its costs and to those of the P&I scheme in proportion to the total tonnage that their vessels contributed to the Association's total, and possessed voting rights of the same value in decision-making.

After its formation with Government encouragement in 1921, the ASO cartel occupied a position of consequence in the private shipping sector until its dissolution.<sup>11</sup> During these years the ASO was primarily responsible for finding employment for the ships of its member companies that, with the exception of Union, were the same as those forming the ASOF. As the ASO's success or failure in the performance of its task was therefore directly reflected in the profitability of its members' shipping operations, some explanation of its operations is necessary.

The principle was straightforward. The ASO chartered from its members each ship they entered in the pool at a daily rate that comprised fixed costs and an allowance for crew costs, and disbursed certain voyage costs, principally bunkers, stevedoring and towage.<sup>12</sup> A reduced rate was payable after fourteen days to vessels laid up for overhaul or lack of employment. The ASO's traffic committee allocated the ships to trades according to their suitability, positioning and sometimes their owners' relationship with a charterer. After deducting ASO's disbursements, which included the charter hire it paid to its members, from total freight earned by the group, the nett surplus (or loss) was apportioned monthly among members, according to the percentage that the charter money each received bore to the total paid out by the

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<sup>10</sup> This amounted to approximately 70% of the agreed daily standing costs of a vessel for every day it was delayed after the first.

<sup>11</sup> After its suspension during the Second World War, the ASO agreement was revised and renewed in mid-1946. Letter from Rickards (MH) to Hotblack (AUSN) of 11/6/46. ML. MSS. 4548 146/361. To avoid suggestions that its members had done well out of the Government's wartime charters, the new ASO agreement maintained the Government's wartime freight rates. Notes of a Meeting of ASO companies 2/4/46, ML.MSS. 4548 168/361.

<sup>12</sup> The charter rate included components for the ship's capital cost (excluding interest and depreciation), an allowance to cover wages as at 1<sup>st</sup> January annually, and stores. Memorandum from ASO to W.A. Mackay (MH), 6/3/45. ML. MSS 4548 168/361.

ASO.<sup>13</sup> The effect of this accounting system was that even when the pool made a profit, the return to a company whose vessels had all traded profitably could be reduced or eliminated by their obligation to contribute to the profit entitlement of companies that had traded less profitably or incurred a loss for the month.<sup>14</sup> ASO's accounting system was also lacking inasmuch as it usually took three months after a month's end to finalise accounts and therefore to settle credits and debits.<sup>15</sup> Even pre-war these arrangements were criticised by the larger and more profitable ASO members and contributed to their dissatisfaction that eventually caused the ASO's collapse. The ASO operated through committees whose titles defined their tasks.<sup>16</sup> The most important meetings were those of the members' principals, usually companies' chief executives who held voting rights according to the total gross tonnage of the vessels their companies contributed to the pool. These rights, however, were again waived in favour of decision-making by consensus. The ASO's small secretariat also organised meetings to discuss matters of common interest to members, represented them in contacts with other bodies, decided freight rates, but had no responsibility for the member companies' internal affairs.

This strengthening of the private owners' position through membership of the ASO cartel was, however, offset by some facets of its operations that perhaps represented a nett disadvantage to its members.<sup>17</sup> For instance, the ASO's profitability was inconsistent and in its later years its losses ruinous. According to McKellar,

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<sup>13</sup> Towards the end of the ASO's life the large passenger vessels were excluded from the profit distribution unless they made profits individually.

<sup>14</sup> The inclusion of the charter hire paid by the ASO in vessels' voyage costs had the effect of accentuating pool losses or diminishing its profits. N.L. McKellar, *Derby Round to Burketown*. op. cit. p. 616.

<sup>15</sup> These deficiencies are apparent from the ASO's monthly account for August 1957 forwarded to the AUSN in London in November that declared a profit of some \$124,000, to which the operations of Adelaide's vessels contributed approximately \$52,000. Adelaide, however, received a distribution of only \$43,000 because of its obligation to contribute to the profit shares of Parker, McIlwraith and Melbourne, whose ships had all traded unprofitably. General Letter 45 15/11/57, MH, Sydney, to AUSN, London. ML. MSS. 4548 153/361.

<sup>16</sup> These were the Chartering, Tonnage Review, Freight, and Pro-Forma Committees. The most important of these were duplicated at state level to handle local issues. Minutes of ASO meeting 1542 2/12/58, Z535/17, NGB.

<sup>17</sup> Perhaps because of fears of being prosecuted like its forerunner, available records of shipping companies contain no copies of the ASO agreement. A draft account of its post-war operational rules is contained in the Mitchell Library. MSS 4548,168/361. Applying these rules to an analysis of ASO's trading results for October 1948 General Letter 2/48, 27/2/48. ML. MSS 4548 51/361) provides vessels' charter rates, tonnages and entered values from which voting rights and profit and loss distributions can be calculated. Vessels' trading accounts such as those attached to the letter of Rickards (MH), to Campbell (AUSN), of 12/5/49 ML.MSS. 4548 150/361 show that ASO operated in accordance with these adductions, and this was confirmed by discussions with Mr. Eutrope, a former member of ASO's Traffic Committee.

whose access to some of the few remaining records of the AUSN gave him a unique knowledge of ASO's operations, the cartel lost \$7millions between its establishment on 1 April 1921 and 31 March 1932, mainly because of the great depression that caused many ships to be laid up. The loss was partially offset by the \$2.6 million profit it made thereafter up until the eve of the Second World War during which its operation was suspended.<sup>18</sup> After the ASO was reconstituted in 1947 its results saw-sawed between profits and losses according to operating conditions and demand for shipping services until the dissatisfaction of some prominent members with ASO's chronic lack of profitability led to their exit and the ASO's collapse. One obvious disadvantage to conducting business through a cartel was that it created distance between shipowner and client, and slowed the decision-making process. Again, the frequent meetings called by the ASO on one subject or another had the capacity to accustom executives to believing that consensus was the normal or perhaps only way of decision-making, and meetings certainly occupied much of their working lives. Many of the shipping executives who had been trained in these sheltered and ordered conditions pre-1939 would have had difficulty in recognising the need for independently-minded decisions and have been restricted by association with the ASO from taking them. Aggregating these effects raises the suspicion that perhaps the most important long-run consequence of the ASO membership was that it stifled the development of an industry competitiveness that would have better equipped shipping to face the challenges of its post-war environment.<sup>19</sup>

The Independent Steamship Owners' Association (ISOA) provided another example of the shipping industry's propensity for organising itself into a group, but one very different from the ASOF. It was formed in 1944 by a group of minor shipowners and registered under the *Commonwealth Conciliation and Arbitration Act* to represent its members in industrial matters and therefore required to have rules of association. In 1945 the ISOA had four members, James Patrick & Company Proprietary. Limited (Patrick), John Burke Limited (Burke), William Scott Fell and Company Limited (Scott Fell) and R.W. Miller Limited (Miller). The eleven vessels collectively owned by these companies operated in disparate trades with little overlap. Patrick and Burke both operated passenger and cargo services along the East coast,

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<sup>18</sup> N.L. McKellar, *Derby Round to Burketown*, op. cit. p. 614.

<sup>19</sup> McKellar suggests that the ASO members' forbearance with an organisation of such dubious success was because they "... generally realised that they were better off working in association than in trying to cut one another's throats." *ibid*, p. 611.

Patrick in a range from Brisbane to Melbourne, and Burke from Sydney as far north as Thursday Island. In 1945 the remaining ship of Scott Fell was employed by BHP on a long-term charter, while Miller's vessels distributed the coal produced by the company's Hunter Valley mines to interstate and intrastate users. Because of their different interests there was little if any scope for competition between these companies and the ISOA's purpose was therefore only to give them a unified voice in dealing with Government and industrial matters.<sup>20</sup> Thus the ISOA only superficially resembled the ASOF and neither needed nor had a trading arm with the cartel-like features of the ASO.<sup>21</sup> Moreover the trades occupied by the ISOA did not impinge on those of the ASOF so relations between the two were good and they frequently made common cause in matters of mutual interest. By 1965 the ISOA no longer had relevance to the activities of its surviving members by whom it was deregistered and ceased to function on 24 March.

The remaining independent companies in shipping's interstate trades were a number of minor operators that between them owned eighteen vessels.<sup>22</sup> Those owning more than one vessel were Wm. Holyman & Company Limited (Holyman) with six vessels, W.R. Carpenter Limited (Carpenter) and H.C. Sleigh Limited (Sleigh) with two each, and a further eight ships were owned singly.<sup>23</sup> Unaligned with any mainstream group these minor shipowners exerted little influence on the industry's path and with lesser resources than the larger companies, their operations were therefore especially vulnerable to challenges.

The second segment of the private sector comprised several large shipowners in the interstate and Pacific Islands trades that belonged to no cartel or association. Although these companies had no relationship with each other, their common feature of vertical integration with their owners' main business makes it convenient to group them together as "integrated" owners for the purposes of analysing the changes to the Australian shipping industry. In 1945 these companies were the Broken Hill Company Pty Limited (BHP), Burns Philp and Company Limited (Burns Philp), the Colonial

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<sup>20</sup> J. Spiers, *The Australian Stevedoring Industry*, op. cit. p. 22. Like the ASOF, the ISOA had no articles of association and because of this informality very little record of its activities is discoverable.

<sup>21</sup> "A cartel is a merger of manufacturers to control production, marketing arrangements, prices &c." Lloyd's *The Marine Encyclopaedic Dictionary*, Lloyd's of London Press Limited 1988. Although this definition fits the ASO it did not fit the ISOA whose members were all in different trades. Thus the ISOA's principal function was to speak for its members in matters of common concern such as labour relations and contact with the Government.

<sup>22</sup> See Appendix One.

<sup>23</sup> *Ibid.*

Sugar Refining Company Limited (CSR), and the British Phosphate Commission (BPC); between them they owned twenty-one ships.<sup>24</sup> Three characteristics differentiated these companies from the first segment. Firstly, as these fleets were fully occupied in carrying their owners' cargoes, their employment was assured while the businesses of their parents prospered. Thus they had no need to compete for cargoes, nor were their vessels free to enter the general shipping market. Secondly, the ships of the integrated companies were largely insulated by the financial strengths of their owners from the market forces that affected the operations of other ships. Finally, as these companies owned ships for reasons other than supplying commercial shipping services, their ongoing existence was not determined strictly by profitability.

Until it formed its own shipping division in 1925, BHP had chartered vessels to carry the bulk cargoes of haematite, limestone, coal and coke used in steel production and to distribute its products.<sup>25</sup> The decision by BHP to own and operate its own fleet was a significant one for the Australian shipping industry because thereafter successive Governments needed to consider the effects of their shipping policies on Australia's largest company. During the Second World War BHP was allowed to manage its own fleet in its usual trades and it therefore it escaped the disruption of Government requisition. Thus in 1945 BHP faced neither the challenge of obtaining release of its ships from the Government for resumption of normal trade nor, because of the company's financial strength, the difficulties of the independent private companies in paying for their refurbishment.

Over its many years of trading, Burns Philp had also built up a substantial shipping business and in 1945 had a fleet of eight vessels.<sup>26</sup> Although the company employed Australian officers in all its ships only three for which it received a Government subsidy were manned by Australian seamen, the others by Papua New Guineans. Burns Philp's main business was trading with the Pacific Islands. This generated much of the cargo its ships carried with the balance deriving from other shippers and carried on a commercial basis. Because Burns Philp operated apart from

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<sup>24</sup> See Appendix One

<sup>25</sup> Writing of the delivery of the first cargo of South Australian haematite to BHP's Newcastle steelworks, BHP Transports' historians comment: "Henceforth BHP's core business [steel making] and shipping would be inseparably entwined ..." D. M. Riley & D. Crisp, (ed) *The Iron Ships; A Maritime History of BHP 1885-1992*, BHP Transport Limited, Melbourne, 1992. p.17.

<sup>26</sup> When they formed the company in 1883 both Burns and Philp already operated ships. *Ibid* p.19.

any group and supplied much of its ships' cargoes, its shipping operations fit appropriately into the category of integrated shipping.<sup>27</sup>

CSR had been a shipowner since 1874 and in 1945 operated three ships, carrying passengers and general cargo to service its plantations in Fiji, sugar on the return voyage, and sugar from Queensland to its Sydney and Melbourne refineries. CSR's vessels also escaped Government requisition during the Second World War.

The British Phosphate Commission initially used tonnage chartered on the world market to ship to Australia and New Zealand the phosphate cargoes it mined from deposits on the former German possession of Nauru.<sup>28</sup> In 1922 it bought the first of its ships and manned them with British and Australian officers and Asian crews. However, Australia was a major shareholder in BPC, the principal purchaser of its phosphate, and Melbourne was host to its head office. Yielding to Government persuasion and pressure from Australian unions, BPC replaced the Asian crews with Australians in 1946 and its vessels became a *de facto* part of the Australian fleet.<sup>29</sup> In 1945, therefore, the fleets of the integrated owners had long been as sheltered from competition by the integration of their task with the main businesses of their owners as had the fleets of the private companies by their membership of the ASO cartel.

### **The Intrastate Segment**

The third segment of the private sector was the intrastate shipping services. Historically these were important links in Australia's transport chain and at the end of the Second World War were still provided in three states by several fleets of vessels all privately owned with the exception of the West Australian State Shipping Service (WASSS). Some of these services were as old, or older, than the state railways with which they had successfully competed up until 1939.<sup>30</sup> In New South Wales the North Coast Steam Navigation Company Limited (North Coast) provided general cargo services to ports as far north as Queensland, while the Newcastle & Hunter River

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<sup>27</sup> K. Buckley and K. Klugman, *The History of Burns Philp*, Burns Philp and Company Limited, Sydney, 1981, p. 142.

<sup>28</sup> Maslyn Williams & Barrie Macdonald, *The Phosphateers* Melbourne University Press, 1985, p. 169. BPC was owned by the British, Australian and New Zealand Governments in the respective proportions of 42%, 42% and 16%.

<sup>29</sup> *Ibid* p.369.

<sup>30</sup> For example, South Australia's Coast Steamships was formed in 1875 and in New South Wales the Illawarra Steam Navigation Company and the North Coast Steam Navigation Company's predecessor dated from 1858 and 1873 respectively. Barry Pemberton, *Australian Coastal Shipping*, op.cit. pp.37, 81,87.

Steam Navigation Company Limited (Newcastle & Hunter) operated a similar service between Sydney and Newcastle. The Illawarra and South Coast Steam Navigation Company Limited (Illawarra) provided a shipping service to ports south of Sydney. Their principal cargoes were farm produce (including refrigerated items), timber, coal and general cargoes. Two main intrastate bulk trades existed: sugar (seasonally) from the Northern Rivers area to Sydney, and coal from Newcastle to Sydney, lifted in small bulk carriers known as 'sixty milers'. These were owned among several colliery proprietors and coal merchants (including most ASOF and ISOA members) and carried fuel for Sydney's power stations and industry, and for ships that in 1945 were still generally coal fuelled. In South Australia the long distances over poor roads around the heads of the St. Vincent and Spencer Gulfs made it easier to communicate by shipping with the isolated farming settlements of the Yorke and Eyre Peninsulas than by land transport, and a strong intrastate shipping industry therefore developed.<sup>31</sup> By 1945 South Australia's intrastate trades were dominated by Coast Steamships Limited (Coast), which had become a wholly owned subsidiary of the Adelaide Steamship Company in 1915 after a period of competition in which it crushed its rivals.<sup>32</sup> North Queensland's outports at first relied for their shipping services on vessels trading internationally and interstate which were en route elsewhere. Eventually, locally owned companies established themselves to service the state's internal trades. John Burke Limited (Burke), of Brisbane, the principal company remaining post-war, operated a passenger and cargo service to Thursday Island, and general cargo services to and from outports and missions.

Another presence in the intrastate segment was the Western Australian government. In 1912 it had established the Western Australian State Shipping Service (WASSS) whose purpose was to stimulate development, particularly of the state's north-west, by providing communication for the communities scattered along its extensive coastline.<sup>33</sup> Profitable operation was not, therefore, the prime purpose of the WASSS, and it lost money annually throughout its history. The WASSS abandoned its declining south coast trades in 1940, and in 1945 provided passenger and general cargo services to all ports northwards between Fremantle and Darwin with two ships that had survived the war, until it increased its fleet with the purchase of two

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<sup>31</sup> Barry Pemberton, *Australian Coastal Shipping*, op. cit. pp. 36, 37.

<sup>32</sup> R. Parsons, *Southern Passages, A Maritime History of South Australia*, Wakefield Press, 1971, p.237.

<sup>33</sup> Barry Pemberton, *Australian Coastal Shipping* op. cit. p.29.

Government ships. The combined fleets of the intrastate companies totalled 41 vessels, but the nature and location of the ports they visited dictated their relatively small size.

The three interstate, integrated and intrastate segments that comprised shipping's private sector were therefore structurally and functionally separate. The ASOF and ISOA companies and minor operators, focused on the general cargo trades, and apart from occasional cargoes for BHP confined their participation to bulk trades in which they had interests such as coal and sugar. The fleets of the integrated owners were fully occupied in their parents' trades and had neither the need nor the opportunity to encroach on others' trades. Most of the intrastate companies' vessels were unsuited to longer interstate voyages and in 1945 were also fully occupied in their traditional trades and trying to regain clients lost to rail during the war years.

### **Government Shipping**

In 1945 the Commonwealth Government was a recent entrant to the peacetime Australian shipping industry. The Government's re-entry to shipping had occurred the establishment in 1939 of its Shipping Control Board (SCB) whose function was to take wartime control of domestic merchant shipping. By 1942 it had become apparent that, because of the reduction in building during the Great Depression, war losses and reduced productivity due to industrial disruption, the existing Australian fleet could not meet the increased demands of the war effort.<sup>34</sup> The Government therefore sub-chartered ships from the British Ministry of War Transport, whose total peaked at nineteen vessels. These ships or their replacements remained chartered to the Government throughout the war and for several years thereafter. Lacking management infrastructure of its own, the Government divided the managing agencies for its vessels, their port agencies and stevedoring among the private companies and paid them a fee to crew and operate the ships for the SCB. Most of the chartered vessels were employed in BHP's heavy bulk trades in coal, dolomite and iron ore. The Government thereby gained commercial experience of these trades in a relationship with BHP that lasted almost forty years. Apart from the charters, the Government also

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<sup>34</sup> McKellar also attributes the legacy of wartime shipping shortage to the lack of new vessels built by ASO's members in the immediate pre-war years due to its anti-competitive restrictions. N.L. McKellar, *Derby Round to Burketown*. op. cit. p 616.

ordered the building of thirteen vessels from the previously moribund Australian shipyards, principally to carry military cargoes to the Pacific Islands. All but one of these were completed by war's end and contracted out to the private owners for management as they were delivered. By the end of the war the Government had ordered a total of more than 30 ships whose construction fully occupied Australian shipyards for several years into the future.<sup>35</sup> It was thus apparent to the private owners that the Government's involvement with shipping was anything but a passing phase dictated by the exigencies of wartime.

### **Legislative Underpinnings**

The structure of the Australian shipping industry with its lack of rivalry between the companies and segments of its private sector, and its inhibiting effects on industry competitiveness were not solely the product of commercial forces.<sup>36</sup> The development of these characteristics was promoted by legislation intended to protect shipping from the competition of new entrants, especially foreign shipping.

The linchpin of the Government's regulatory framework for safety at sea and the conduct of Australian ships in the international and interstate coastal trades in 1945 was the *Navigation Act (1912)* and regulations made under it. Its purpose was to ensure the benefits of trading on the Australian coast accrued to Australian companies and to preserve the safety and working conditions of Australian seamen. The Act frames its intent to protect Australian shipping in Section 7 Part I (Introductory); the coasting trade is defined in Section 288 of Part VI (The Coasting Trade). These sections provide that any ship engaging in the interstate trades must be licensed by the responsible minister. While ships in intrastate trades are subject to regulation by the respective state governments it is common for them to be licensed under the *Navigation Act* to have the flexibility of interstate trading. The Act does not therefore prohibit foreign vessels from applying to be licensed for the coastal trade, but requires that any doing so comply with Australian safety standards and, by Section 289, pay Australian wages to their crews. However, Section 286 of the Act is important for both shipowners and maritime unions because it supplies an exception to these

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<sup>35</sup> The Government's shipbuilding programme comprised 13 "A" class vessels from 4942 to 6458 GRT built between 1943 and 1947, named after rivers; 13 "B" class ships between 3895 and 4054 GRT built from 1947 to 1956, 9 "D" class ships of from 2280 to 2898 GRT built between 1946 and 1949, and 5 "E" class of 584 GRT built from 1948 to 1950. The latter three classes were named after towns commencing with the letter of their class. A 5<sup>th</sup> class of 10 "C" class vessels of 3,000 GRT was never laid down.

<sup>36</sup> See Chapter One, pp. 4,5.

provisions. This section allows the responsible minister to issue either a Single Voyage Permit (SVP) or a Continuing Voyage Permit (CVP) to an unlicensed vessel, provided he perceived the issue to be in the public interest and licensed ships to be either unavailable or incapable of providing an adequate service. The succeeding Section 287, however, protects against possible abuse of this provision by excluding vessels subsidised by a foreign government from being granted a permit. The clear intent of this legislation was, therefore, to reserve Australia's coasting trades to its own vessels and to admit foreign vessels only in exceptional circumstances, and then on safety and commercial terms equivalent to those of Australian ships. In 1945 a number of licensed foreign ships imported by the Government in wartime remained in the coastal trade under the Act's provisions. But in a climate of full employment for Australian vessels and their crews, it appears that they evoked little opposition from either Australian shipowners or the marine unions.

The Act's effects however, extended beyond its original purpose. Although the legislation for the *Navigation Act* was passed in 1912 its proclamation was delayed by the First World War until 1921. Since then its purpose of deterring foreign shipping from entering the coastal trades has been served by the commercially unattractive requirement for foreign crews to receive the generous pay and conditions of Australian seamen. However, 1921 was also the year of the ASO's formation so apart from the *Act* providing a barrier to entry by foreigners to the industry it also facilitated the development under its protection of the ASO's dominance of the coastal general cargo trades. According to critics such as McLean, the Act's reservation of coastal cargoes to Australian ships has encouraged inefficiency, uncompetitive manning and high marine labour costs that have been transmitted to shipping's users, retarding the development of some.<sup>37</sup> Arguably legislative protection also produced a managerial class lacking the attributes the post-war industry needed.

### **Industry Management and Fleets**

The shelter from competition afforded by years of protection by legislation and the industry's structure, their companies' memberships of the ASOF and ISOA did not perhaps create in shipping's senior management the initiative needed to meet the challenges and changed circumstances of the post-war years. For instance, there is ample evidence most companies regarded length of service as the most valued

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<sup>37</sup> Ross McLean, *Australian Coastal Shipping: The High Price of Protection*, Australian Institute for Public Policy (AIPP), Melbourne, 1984. p.25 et seq.

attribute for advancement to managerial status.<sup>38</sup> During these years an aspirant to a top management position would hope that his acceptability within the company, and the grasp he had acquired of its affairs, would earn him promotion. Again, loyalty to companies that possessed pension funds was reinforced by their non-portability. Managerial initiative was further circumscribed if the company was a member of the ASOF group, whose decisions he was expected to support, notwithstanding the shortcomings in the processes by which they were made.<sup>39</sup> Management of the major integrated shipping companies, such as BHP or Burns Philp, were free of the restrictions of group membership and provided much of their own cargo. While their managements faced a similar operational environment to that of the ASOF group, there is no reason to suppose these advantages made them more enterprising or better managers than those of the independent companies.

Apart from the industry's management, there were also limitations on the capability of shipping's post-war fleets to meet the demand expected to be unlocked by a return to peacetime trading. The science of tailoring the design of ships to their intended purpose was still in its infancy. Thus the vessels awaiting release from Government requisition were between three and four thousand gross tons, small by international standards, with an average age exceeding twenty years and used to carry either bulk or general cargoes.<sup>40</sup> Technical advances both in shipbuilding and ship operation made during wartime had not spread from the major maritime nations, while the Australian industry's ships remained at a pre-war level of technical

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<sup>38</sup> For instance, the addresses to shareholders of successive Adelaide chairmen contain many such examples, such as General Manager G.S. Packard, who retired on 31/12/52, and the Company Secretary T.M. Waddy on 30/4/55, both after 50 years service, and Sir Walter Duncan retired on 30/9/60 after serving as Director since 1932. Records of the Adelaide Steamship Company Limited NGB Z535/14. Also the *Sun Herald* of 20/3/66 records the imminent retirement of Mr. John Mitchell, Managing Director of Burns Philp and other public companies after 75 years with his employer: "92 - And He's Still a Working Man."

<sup>39</sup> It appears that the Government was unimpressed by either the commitment of Australian shipowners to their industry or their managerial attributes. An unnamed "influential Australian" told AUSN's chairman "... the Government's main complaint is that the management of the companies in Australia is comprised of too many old men whose financial interests are outside shipping, and that there is a disinclination to cooperate with the Government." Letter from Campbell (AUSN, London) to Rickards (MH, Sydney), 19/3/47. ML.MSS 4548 169/361. In his response of 29/3/47 Rickards broadly agreed, commenting, "unfortunately some of my friends in ASO are inclined to procrastinate." ML. MSS 4548, 169/361.

<sup>40</sup> "At the end of the war the state of the Australian Merchant fleet was motley to say the least. Seventy five percent of vessels were over 20 years old and 11 per cent were over 35 years old. Flying the Howard Smith house flag, for example, were the *Macedon* (built 1916), *Era* (1921), *Caledon* (1927) and *Lady Isobel* (1921)." Brian Fitzpatrick, & Rowan Cahill, *The Seamen's Union of Australia 1872-1972*, Seamen's Union of Australia, Sydney, 1981, p. 238.

development.<sup>41</sup> The private fleets were in a generally run-down condition, mainly because in wartime it was difficult to find facilities to repair vessels and impossible to replace them. The continuing use of this obsolescent tonnage was supported by the shortage of shipping that occurred immediately post-war when there was strong demand for its services. Nevertheless, in spite of the ships' deficiencies in 1945 the non-Government sectors owned 169 ships between them, or approximately 79% of the Australian merchant fleet and thus resumed peacetime trading as the largest providers of shipping services.

### **Labour Organisation**

The maritime labour organisations constituted an important participant in the Australian shipping industry. A more passive status than that of participant is usually ascribed to an industry's organised labour. However, in the case of Australian shipping its unions' monopolies of supply of their members' services under the Commonwealth Arbitration system, combined with militancy, gave them influence over developments they might not have possessed in an industry less sensitive to operational disruption. In 1945 virtually all Australians seamen belonged to one of the unions of Table 2.1

**Table 2.1**

**Marine Unions in 1945**

<b>Name</b>	<b>Short Title</b>	<b>Representing</b>
Merchant Service Guild of Australia	MSG	Shipmasters and ship's officers
Aust. Institute of Marine & Power Engineers	AIMPE	Marine engineers and electricians
Federated Shipwrights & Ship Constructors Union	Shipwright Union	Shipwright
Seamen's Union of Australia	SUA	Ratings; uncertificated deck and engine room hands
Marine Cooks, Butchers & Bakers Association	Cooks Union	On-board members of these trades
Federated Marine Stewards & Pantrymen's Ass'n	Stewards Union	Marine stewards
Professional Radio & Electrical Institute	PREI	Radio Officer

**Source: Australian Shipowners' Association.**

<sup>41</sup> For example, the widespread adoption of electric arc welding in shipbuilding and the use of radar in navigation were both developed during the Second World War.

A combination of casual employment, poor working and living conditions with insensitive management had made for historically poor labour relations in the shipping industry. Nevertheless, they had been relatively well ordered pre-war because the idleness of many ships threatened employment during the long economic depression of the 1930's.

The uneasy pre-war balance of labour relations was upset by the SUA in a wartime display of union power when it disrupted shipping in a campaign to win improved pay and conditions for its members. As the union's historians put it,

The war had been used by the [Seamen's] Union in two ways- as a means to continue the rebuilding necessitated by the disastrous 1935 strike and as a lever to secure gains for its members.<sup>42</sup>

The SUA was not the only union among those included in Table 2.1 to disrupt ships during wartime, although it was probably the most frequent and successful in terms of the gains its tactics made. The stevedoring industry is an important adjunct to shipping. Its dominant union, the Waterside Workers' Federation (WWF) played such an important part in the post-war history of Australian shipping that its activities form a necessary part of an analysis of changes to that industry. The arrival of peacetime found these unions in strong position in a climate of general industrial instability likely to test the skills and patience of the Government and shipowners.

## **Conclusions**

Over the years history and Australian shipowners divided coastal shipping services among themselves into three non-competitive segments. The seven categories of shipboard labour whose functions were not interchangeable were supplied by seven unions. The industry was protected by legislation from competition by new entrants unless they accepted the same operating conditions and labour costs as the incumbents. The inadequate infrastructures of road and rail also prevented effective competition from these sources. Subject only to economic recession, this was a secure and comfortable industry but one containing inherent weaknesses. Absence of competition tends to encourage complacency in those operating the system, reducing incentive to invest in new equipment, to defend against competition by improving

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<sup>42</sup> Brian Fitzpatrick & Rowan Cahill, *The Seamens' Union of Australia*, op. cit., p. 236.

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service and efficiency or to reduce costs. In an industry insulated from competition by legislation, structural divisions, cartels and associations, decisions are likely to be made with less regard for their commercial consequences than if driven by the need to meet internal and external rivalry. In the case of Australian shipping this applied to unions and Government as well as to firms' management. This feature suggests an industry with such inherent weaknesses might not survive in that form in the long run and if subjected to changed circumstances such as strong competition or other forces that undermined profitability would fail sooner rather than later.

Fundamental changes to all of the characteristics of Australian shipping described have occurred since 1945. An analysis of these changes and their causes is the subject of this thesis, the completion of which will be assisted by a review of the existing stock of Australian shipping literature and the views of its contributors.

## **CHAPTER THREE**

### **LITERATURE REVIEW**

The structural weaknesses of post-war Australian shipping that had evolved over the preceding years of its history increased its vulnerability to six competitive forces that developed. Some firms were marginally more successful than others in meeting the challenges facing them. Thus, shipping declined from a broad-based service industry to a carrier of cargoes for the mining and manufacturing sectors, a transition accompanied by a reduction in its importance and profitability. In the first twenty post-war years, six forces strengthened or developed: the Government's presence, restrictions on the supply of shipping's vessels and labour, competition from its substitutes, changes in the characteristics of shipping's users, technical advances and internal rivalry between existing players. This thesis argues that these six forces undermined the profitability of a debilitated industry and became the proximate causes of shipping's decline, a term used synonymously with the transition to its new role.

A wide spectrum of authors - academics, shipping companies' and labour union's historians, Government bureaux and public affairs institutes - have written on aspects of Australian shipping. The literature comprises formal histories of the industry and its participant firms and unions, monographs sponsored by public affairs foundations and papers by Government agencies that deal with emerging issues and these are, therefore, inherently chronological. The wide range of origins and purposes of this literature thus lends itself to a review by types of published work that is both thematic and chronological. These works have diverse themes but none takes as its subject the decline of Australian shipping to its present condition; although some mention the presence of one or more of the six factors, this is only in the context of their effect on the particular subject of their paper or book. For instance, while Bach blames industrial unrest and land transport's competition for shipping's decline, he believed this was only a phase in his general history. Similarly, in McKellar's history of the AUSN, his references to the effect of restrictions on the supply of ships and labour and the Government's shipping policies are in the context of his subject, not of general industry decline. Both BHP Transport's account of the company's shipping and McLean's review of the cost of protecting Australian shipping adhere to their

subjects without referring to the forces of decline.<sup>1</sup> Of particular relevance to this thesis is whether there is mention of the forces of decline in the wide field of academic literature reviewed .

### **General Studies**

Although intended only as a general historical account of Australia's maritime history, John Bach has written a wide-ranging book that has become a standard general reference. It spans the period from the commencement of European colonisation in 1788 until just prior to the work's publication in 1976, covering such topics as port development, stevedoring and shipbuilding, and industries serving shipping.<sup>2</sup> The book's scope thus curtails the space allocated to post-war developments in shipping itself to the thirty pages of Chapter XVII, 'Coastal Shipping 1945 to 1975'. Bach's account ceases at 1975 and many events relevant to shipping's decline occurred after that date such as the ANL's demise. More archival information also became available under the *Commonwealth Archives Act*. However, Bach acknowledges "... the first post-war period as one of steady decline in the face of industrial unrest, increased competition from land transport and obsolescent ships"<sup>3</sup> He thus touches on three of the six forces of decline in the context of the early post-war period, a time of crisis he believed the industry had survived and he was therefore optimistic about its future.<sup>4</sup>

Some twenty years after Bach, a work of a similar genre was written by Frank Broeze. The book's scope is broader than that of Bach's inasmuch as it explains the cultural as well as economic influence of foreign and Australian international and coastal shipping and their service industries on Australia's development and history since European settlement.<sup>5</sup> As a general historical account of shipping, the book is therefore more compressed than that of Bach but it traverses much the same ground.

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<sup>1</sup> D. M. Riley, and D. Crisp, (ed.) *The Iron Ships. A Maritime History of BHP 1885-1992*, BHP Transport Limited, Melbourne 1992. Ross McLean, *Australian Coastal Shipping, the High Cost of Protection*, Australian Institute for Public Policy (AIPP), Melbourne, May 1984.

<sup>2</sup> John Bach, *A Maritime History of Australia*, Thomas Nelson (Australia) Limited, Melbourne, 1976

<sup>3</sup> Ibid. p. 370.

<sup>4</sup> "The overall picture of coastal shipping in Australia has, despite particular areas of depression, such as the general cargo trades between Western Australia and the eastern states and across Bass Strait, an optimistic and encouraging appearance which could not have been reasonably foreseen twenty years ago when the entire industry appeared to be on the verge of obsolescence and collapse." John Bach, *A Maritime History of Australia*, op. cit. p. 400.

Still, Broeze's discussion of the effects of the Government's presence, especially through the ANL, labour relations and land-based competition, and the attempts of management to deal with them, indicates his awareness of the issues concerning this thesis.

A more recent account of Australian shipping from the viewpoint of its shipowners has been written for the Australian National Maritime Association (ANMA) by Julie King.<sup>6</sup> At the time of its publication, the Government's reform initiatives had just peaked, industry optimism was high that they would stimulate its revival and these hopes are reflected in the text. This small volume provided a condensed picture of shipping's history and the issues affecting the industry to readers unfamiliar with them. Its contents are spread over a wide range of subjects such as shipping's costs, its legislation, its structure and Government regulation. The book's succinct coverage of important events in shipping's post-war history is contained in Chapter Four that discusses the proposed sale of the Government's ships, labour disruption in the industry, the post-war financial difficulties of the private owners and their conservatism. Government policy, factor restrictions, and competition by shipping's substitutes are also covered. This book was not intended as a dissection of the reasons for shipping's poor post-war performance, but does identify some of the factors argued in this thesis to have been important elements in the industry's decline.

### **Histories of Shipping Companies**

Histories of several shipping companies published since 1945 provide perspectives on post-war shipping differing from the general histories of the industry. Page's history of the Adelaide Steamship Company Limited (Adelaide), Riley and Crisp's of the Broken Hill Proprietary Company Limited's (BHP) shipping operations, and McKellar's account of the Australasian United Steam Navigation Company Limited (AUSN) are histories of individual companies rather than a general analysis

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<sup>5</sup> Frank Broeze, *Island Nation, A History of Australians and the Sea*, Allen & Unwin, St. Leonards N.S.W. 1998.

<sup>6</sup> J. King, *Australian Shipping; Structures, History and Future*, Australian National Maritime Association, Melbourne, 1989. Formed in 1986 by the Australian Steamship Owners Federation it united its members, those of the Australian Maritime Employers' Federation and non-members of either in one shipowners' association. Its name was changed in 1994 to the Australian Shipowners Association (ASA).

of the industry.<sup>7</sup> Given their primary task, their value lies not in determining shipping's decline but in the background and company-specific factors shaping the industry. Such background detail is important to understanding the complex factors impinging on the individual companies and the industry.

When the war ended, Adelaide was the owner of Australia's largest private fleet of twenty vessels, and commissioned Page to write the company's history to mark the occasion of its centenary in 1975. Only Chapter 17, dealing with the years from 1946 to 1975, coincides with the period of retreat and transition after 1945. Page adheres strictly to his purpose, covering the activities of Adelaide and its ships. That Adelaide understood and was concerned with the changes in shipping taking place is confirmed by the company's withdrawal from the industry and diversification into other activities from 1975 onwards. Page's account finishes in 1975, the same year as that of Bach, who believed shipping had overcome its problems. Like him, Page therefore had no reason to speculate on shipping's future decline. However, he does mention the concerns of successive Adelaide chairmen at the effect on company profitability of competition from substitutes, especially on the intrastate services of Adelaide's subsidiary, Coast Steamships. Again, the comments of these spokesmen at Annual General Meetings cited by Page indicate the company held a doctrinaire belief that disruptive labour relations were a significant cause of the industry's problems.

Riley and Crisp's history of BHP's shipping activities covers their evolution from the company's beginnings as a charterer of two or three ships to its position as Australia's largest shipping operator.<sup>8</sup> The book is firmly oriented towards its purpose, the history of BHP's shipping operations that largely experienced a seamless return to peacetime trading because its ships were not requisitioned during wartime. By the mid-1950's BHP provided for its own ships and those of others more than 50% of coastal cargoes and in 1977 became Australia's largest owner of shipping tonnage.<sup>9</sup>

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<sup>7</sup>M. Page, *Fitted for the Voyage; The Adelaide Steamship Company Limited 1875-1975*, Rigby, Adelaide, 1975.

D.M.Riley & D. Crisp (Ed), *The Iron Ships; A Maritime History of BHP 1885-1992*, BHP Transport Limited, Melbourne 1992.

N. L. McKellar, *From Derby Round to Burketown, The AUSN Story*, Queensland University Press, Brisbane, 1977.

<sup>8</sup> Riley & Crisp *The Iron Ships* op. cit. p. 94.

<sup>9</sup> "Though the Company was preparing to enlarge its own fleet the BHP transport task had now [mid-1950's] become a major employer of Australian tonnage, and both the private owners and more

BHP's strength and financial resources, its national importance and ownership of a shipyard protected the company from such frustrating post-war experiences as the Government's restrictions on fleet replacement. As BHP provided its own cargoes, its vessels were exempt from industry rivalry and its trades from the competition of substitutes, although in later years some shipping was replaced by road transport where practicable and efficient. Apart from the need occasionally to lay-up ships during transient economic recession, BHP's experience of shipping's postwar problems was confined to early postwar labour disturbances from union campaigns for improved conditions, and later from unions' resistance to the introduction of technical advances.

When the AUSN withdrew from shipping in 1961, McKellar was fortunate in obtaining a substantial quantity of the company's papers that provided much of the material for his history of the company, published in 1977.<sup>10</sup> McKellar extends his analysis of the AUSN to an industry level. For example, he deals more fully than any of the others with the Government's attempt in the early 1950's to sell its fleet to the private shipowners and the causes of its failure. Although McKellar focuses on the AUSN, he probes more deeply than other sources into the consequences for all the independent private companies of their membership of the ASO cartel. During the period he covers, the widespread introduction of technology had not begun and the change in shipping's users had not yet manifested itself. However, the forces of Government presence and control of factor supplies were evident; thus 1945 to 1949 was

... a period of prolonged Government control, of restrictions of freight rates and on the building or purchase of new vessels, and of the planned growth of a Commonwealth fleet.<sup>11</sup>

The effect of competition from substitutes was also apparent and led to the loss of one million dollars by the ASO's general cargo trades in 1955 and 50% of its

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particularly the ASB (and subsequently the Australian National Line) were to become increasingly dependent on the Company's ore, coal and steel business." Riley & Crisp, *The Iron Ships*, op.cit. p. 63.

<sup>10</sup> Bach acknowledges that in writing his book he relied extensively on a previous unpublished typescript *History of the AUSN* by McKellar. John Bach, *A Maritime History of Australia* op. cit. p. 379.

<sup>11</sup> N.L. McKellar, *Derby Round to Burketown*, op. cit. p. 504.

pre-war fleet by 1956.<sup>12</sup> Again, the rivalry of ANL "... succeeded not only in capturing the bulk trades almost in their entirety, but in making inroads on the general cargo trades as well."<sup>13</sup>

McKellar's account ends in 1964 with AUSN's withdrawal from shipping, just after the collapse of the ASO because of the forces he identified and when private shipping was just coming to grips with its future. So, while recognising their effects on the industry, he had no reason to extrapolate significance? beyond the level of the AUSN and ASO to predict the general industry decline of which they were the forerunners..

### **Histories of Labour Unions**

It is unlikely that the history of Australian marine unions would analyse changes to their industry in terms of forces that might cause its decline. But it can, nonetheless, be expected that union histories would provide a perspective that can be extrapolated to cast light on some reasons for change. Australian seamen traditionally were strong members of one or another of seven seagoing unions that formerly represented the labour skills comprising a vessel's crew. Although all seven unions played roles in the postwar changes in Australia's shipping industry only two have commissioned their histories. When these were written, the Australian Institute of Marine and Power Engineers (AIMPE) and the Seamen's Union of Australia (SUA) represented, respectively, ships' engineer officers and seamen.

*Steady Revolutions* is the history of the AIMPE, a long-established marine officers' union.<sup>14</sup>

It is far from a narrow institutional history and relates the experiences of marine engineers to broader changes in the economic and technological framework of Australian merchant shipping.<sup>15</sup>

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<sup>12</sup> The ASO fleet had declined from 55 vessels in 1946 to 27 by 1956, *ibid.* p.563.

<sup>13</sup> *Ibid.* p. 592.

<sup>14</sup> Rosemary Broomham, *Steady Revolutions: The Australian Institute of Marine and Power Engineers 1881-1990*, New South Wales University Press, Sydney, 1991.

Brian Fitzpatrick & Rowan Cahill, *The Seamen's Union of Australia 1872-1972*, Seamen's Union of Australia, Sydney, 1981. In 1992 the SUA amalgamated with the Waterside Workers' Federation to form the Maritime Union of Australia (MUA).

<sup>15</sup> Malcolm Tull, Maritime History in Australia, in *Maritime History at the Crossroads: A Critical Review of Recent Historiography*, Frank Broeze (ed), International Maritime History Association, St. John's, Newfoundland, 1995, p. 20.

The book has three chapters allocated to its account of the post-1945 years, when Australian shipping incurred substantial costs it could not afford from industrial disputation between unions and shipowners and intra-union. Broomham's work goes far in explaining the response of the AIMPE to postwar changes in social attitudes and the advances of technology that prompted several of the disputes in which it was involved. One of these arose from the success of the SUA's wartime campaign for increased benefits and improvements in their working conditions and also advanced that union's objective of winning "social progress" for its members.<sup>16</sup> Some AIMPE members saw this change in seamen's status as undermining their authority the restoration of which became a prime post-war concern of the Institute's officials.

But at home the AIMPE was introspective. Even while recognising the need for shorter hours and improved rates, Institute leaders were more concerned to correct the damage to their status by wartime deskilling. In their eyes the postwar chance to start afresh could best be used to consolidate and protect their elite position.<sup>17</sup>

This conflict of ambitions was responsible for several confrontations between the two unions in which the ships involved experienced costly delays. The book's other main post-war theme, the AIMPE's attitude to technical advances, mirrors the stance of other unions.

Previously welcomed as a positive move by shipowners, now the installation on the *Musgrave Range* [a facility to monitor the engine's performance from a control room] would ultimately threaten marine engineers' employment. ... Thus the Institute was forced to abandon its principle of two engineers per watch only months after it had been reaffirmed. ... Within a year automation was clearly recognised as an enemy for by this time its partner redundancy was well known ...<sup>18</sup>

Thus the level of engineer manning became a source of disputation that embroiled many new vessels commissioned over a period exceeding ten years and the union's reaction to the introduction of technical advance was a major factor in shaping the industry's responsiveness to new ideas. Broomham's work, while not analytic of industry change due to economic forces, does identify the impact of technology on labour and the union's responsiveness to its social effects.

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<sup>16</sup> Brian Fitzpatrick, & Rowan Cahill, *The Seamen's Union of Australia 1872-1972*, pp. 282,283

<sup>17</sup> Rosemary Broomham, *Steady Revolutions*, op. cit. p. 143. An instance of the costs to shipping of the AIMPE's protection of its elite position is afforded by a dispute between it and the SUA concerning a Chief Engineer's authority that delayed the vessel *Corio* for ten months. Ibid. pp. 144-146.

<sup>18</sup> Ibid. p.179.

The SUA was the most militant of the marine unions and delayed vessels in campaigns to improve its members' working conditions and to resist technical advance unless accompanied by compensation for the loss of work it caused. Industrial action to win employment benefits started in wartime and resistance to the effects of technology from the late 1960's until settlement of these issues through the Arbitration system became the norm after the Government's revitalisation initiatives in the early 1980's. But as the SUA's historians frankly explain, the union was motivated to disrupt shipping, especially that of some foreign countries, for reasons less justifiable than those related to conditions and technology. These strikes reflected the political affiliations of some of its elected officials who, like those of several other key Australian unions, were Communists.<sup>19</sup> But labour disputes that blocked access to berths delayed Australian ships as well as those that were their targets.<sup>20</sup> In the prevailing international political climate of the early post-war years, any industrial action by this union was therefore usually seen by shipowners, press and Government as ideologically motivated, whether it was or not.<sup>21</sup> The SUA's history concedes that the frequency of stoppages gave the maritime unions a reputation for creating havoc and tarnished shipping's reputation for service but does not consider whether its activities might have contributed in the long term to lack of Government and private support for the industry. The book is also frank in discussing the SUA's relations with the MIC, the Government agency that controlled the supply of seamen, towards which the union was ambivalent inasmuch as it accepted its concessions but later rejected the MIC as biased.

Both the SUA's and the AIMPE's histories therefore assist in providing a union background to three of the reasons for shipping's poor industrial record, the

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<sup>19</sup> One of these was 'internationalism,' the disruption of any vessel loading or carrying goods for use against the insurgent forces of colonies fighting for their independence, or for use against socialist movements in conflict with the governments of their countries. Brian Fitzpatrick & Rowan Cahill, *The Seamens' Union of Australia*, op. cit. p. 168 et seq.

<sup>20</sup> According to the SUA's history, the key to these delays was in a decision by the union's executive to promote the cause of peace that was freely interpreted by its members as a reason to disrupt Dutch and Greek shipping, and vessels with cargoes for or from Malaya, China, India, Korea and Vietnam. Ibid. p.192.

<sup>21</sup> "This [antipathy to the SUA] was part of the general anti-communist feeling that strongly pervaded Australian society ... accentuated in the case of the SUA by selective and at times vigorous attacks made in parliament and by the mass media upon its policies, activities and leaders, part of what happened when the Cold War came to the labour movement." Brian Fitzpatrick & Rowan Cahill, *The Seamen's Union*, op. cit. p. 232.

effects of which can be linked to the industry's decline in profitability that induced its postwar changes.

### **Critiques and Analyses of Government Shipping Policy**

Since the Second World War, a number of critical analyses of Australian shipping have been commissioned by public affairs institutions with an interest in the industry. Three of these are the results of research by Stubbs for the Australian Industries Development Association (AIDA), by McLean for the Australian Institute for Public Policy (AIPP) and by Amos for the Committee for the Economic Development of Australia (CEDA).<sup>22</sup> At the time all three were published in the early 1980's, the condition of Australian shipping had already caused the Government enough concern for it to initiate attempts at its revitalisation. Interestingly, although McLean criticises the costs of the reforms, the potential benefits of their success are not a major theme in any of these studies.

AIDA sponsored Stubbs' work to "improve the quality of national decision making" after the Government failed to respond to AIDA's request for an inquiry into the transport distribution system. His research, published in 1983, therefore covers international and coastal shipping as well as a number of related industries. In Chapter Two, Stubbs summarises the influences of Federal and State governments on Australian transport that, as he explains, pervaded virtually all aspects of its operations. It contains acknowledgement of the dominance of the ANL and an analysis of its inefficiencies. Chapter Seven provides a succinct summary of the coastal shipping industry, its institutions, characteristics, trades and deficiencies. When Stubbs was writing, the trend in shipping's main users was already apparent to him, as he mentions the increasing importance to shipping of the dry and liquid bulk cargo trades of the mining and manufacturing industries. Stubbs did not need to comment on the post-war effects of restrictions on the supply of ships and labour (already lifted), the loss of shipping's passenger and general cargo trades to substitutes (already complete) or the change in shipping's users (not yet apparent). He does, however, recognise the presence of the three forces of Government, ANL rivalry and

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<sup>22</sup> Peter Stubbs, *Australia and the Maritime Industries*, Australian Industries Development Assn., (AIDA) Research Centre, Melbourne, 1983. Ross McLean, *Australian Coastal Shipping: the High Price of Protection*, Australian Institute for Public Policy [AIPP], May 1984. Paul Amos, *Coastal Transport in Australia*, Committee for Economic Development of Australia (CEDA), Monograph M64, n.d.

the change in shipping's major users that this thesis investigates as potential reasons for shipping's diminished profitability and subsequent decline.

Although the monographs of McLean and Amos can be regarded as presenting opposing views, they are really different sides of the same coin. From its title, *Australian Coastal Shipping; the High Cost of Protection*, it is clear McLean intends his paper to be a critique of Government shipping policy because it was the source of that protection. On the other hand, Amos' more benign monograph on coastal shipping was prepared for CEDA to '...disseminate information...identify the major issues involved and stimulate debate on possible options for change.'<sup>23</sup> McLean suggests inappropriate Government policies supplemented the inefficiencies of coastal transport that developed behind the *Navigation Act's* shield and drove up the cost of other goods. This effect could be offset by the permanent admission of foreign ships to coastal trading.<sup>24</sup> While Amos admits this would lead to savings for users, he believes the proposal of complete deregulation is "merely hypothetical".<sup>25</sup> Again, McLean opposes implementation of Crawford's findings as potentially contributing to further inefficiencies. Amos on the other hand advocates measures that improve shipping's efficiency, such as reducing manning levels and financial support to introduce technological advances as means of containing high shipping costs that will assist the industry to international competitiveness. These suggestions were introduced to Australian shipping in the course of the five years after Amos' paper as a result of the Government's reform initiatives that commenced with the work of Crawford. On the subject of ANL, McLean is critical of the Government's line and its "dismal financial record". In identifying the ANL, the only comprehensive national commercial shipping service, Amos agrees it "has not been consistently profitable", but is otherwise silent on its performance. Joint acknowledgement of the influence of Government regulation in shaping Australian shipping and on the industry through its ownership of the ANL is therefore the principal point of agreement between these two monographs and that of most relevance to the research of this thesis.

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<sup>23</sup> Ibid. para. 1.06, p.3.

<sup>24</sup> N.L McLean, *Derby Round to Burketown*, op. cit. pp. 17, 38.

<sup>25</sup> Paul Amos, op. cit. para. 5.44.

## **Papers by Government Research Agencies**

Government agencies and advisory committees have contributed enormously to shipping literature, although these papers have been directed more towards examination of specific features of shipping, especially assessment of its efficiency than to seeking causes for the industry's changes. They are therefore significant sources of information on a wide spectrum of shipping operations and the important papers selected for review are on topics with special relevance to the analysis of this thesis.

Several papers contain useful background information regarding the extent of the Government's policy of support for shipping's substitutes. An early example is the 1954 paper prepared for the Australian Transport Advisory Council (ATAC). This paper enables comparison of shipping's costs with its road and rail substitutes in the mid-1950's, so illustrating the distortions in the transport market due to the effects of Government financial assistance to these modes.<sup>26</sup> More specific information on road competition is contained in a paper by the Bureau of Transport Economics (BTE) on Australia's road system and the long-distance road haulage industry<sup>27</sup>. The overview of the Australian rail system produced by the Department of Shipping and Transport (DOST) is an additional source of useful information regarding the infrastructure of this substitute for shipping.<sup>28</sup>

Again, BTE's paper on Trans Tasman shipping has identified the effects of labour restrictions and of government policy as forces affecting performance in that trade.<sup>29</sup> The operation and effects of Government policies can also be seen in the paper on taxes and port charges on Australian shipping by the BTE's successor, the Bureau of Transport and Communication Economics (BCTE).

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<sup>26</sup> Australian Advisory Transport Council (ATAC), *The Costs of Transport Operation in Australia*, Business Paper for Tenth Meeting of ATAC, Department of Shipping and Transport typescript, Melbourne 1954. Bureau of Industry Economics, *International Performance Indicators, Coastal Shipping*, Research Report 55, AGPS, Canberra, 1994. Bureau of Transport and Communications Economics (BTCE), *Australian Shipping and the Balance of Payments*, AGPS, Canberra, n. d.

<sup>27</sup> Bureau of Transport Economics, *An Assessment of Australia's Road System*, Canberra, 1984

<sup>28</sup> Bureau of Transport Economics *A Review of Trans Tasman Shipping*, Canberra, 1979.

<sup>29</sup> Bureau of Transport and Communications Economics *Taxes and Charges in Australian Transport; A Trans-Modal Overview*, Occasional Paper No. 34, Canberra, 1997.

Bureau of Transport and Communications Economics, *Monitoring of Trans Tasman Shipping*, Canberra, n. d.

Bureau of Transport and Communications Economics, *Australian Shipping and the Balance of Payments*, Canberra, 1992.

Efficiency standards have elicited a number of papers on shipping and its adjunct, the stevedoring industry. For example, papers by the BTCE on the costs of waterfront unreliability in 1988, and a later 1995 review of the results of the Government's attempts at reform are sources that cover the more recent effects of the supply of stevedoring labour.<sup>30</sup> Assessment of the efficiency of Australian industry in both its domestic and international context was also a role of the former Bureau of Industry Economics (BIE). Two of its papers discuss the results of the Government's shipping reform initiatives and are relevant in the context of this thesis. That of 1994 examines the performance of coastal shipping as measured by a set of indicators; the other is an international bench-marking overview of 1995. BIE's 1991 discussion paper on the cost of capital in Australia also has contemporary relevance to the international competitive position of Australian shipping.<sup>31</sup> A much-debated subject that has produced as many views as authors is whether Government policy should foster Australian shipping because of the potential of ships engaged in international trade to contribute positively to Australia's balance of payments. This subject is also addressed by the BCTE in what should, perhaps, be a more authoritative coverage than some others. A number of the many studies by the DOST, later subsumed by the Department of Transport (DOT), also has relevance in tracing the effects on shipping of some of the post-war forces it encountered. Among these, a 1975 study by the DOT examines the costly labour relations of Australian shipbuilding in its final days prior to the withdrawal of Government assistance from which can be deduced the reasons for the high prices to shipowners of its products.<sup>32</sup> By 1987 the DOTC was obviously aware that changes had occurred in the nature of post-war shipping and the task it was performing. The paper it produced attributes this transition to a normal progression of

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<sup>30</sup> Bureau of Transport and Communications Economics, *The Cost of Waterfront Unreliability in 1988*, Canberra, 1990, Bureau of Transport and Communications Economics, *A Review of the Waterfront Industry Reform Programme*, Canberra, 1995.

<sup>31</sup> Bureau of Industry Economics, *International Performance Indicators, Report 55*, op. cit. Bureau of Industry Economics, *International Benchmarking Overview 1995, Report 95/20*, Canberra, 1995.

Bureau of Industry Economics, *Australia's Cost of Capital. Discussion Paper 15*, Canberra, 1991.

<sup>32</sup> Department of Transport (DOT), *Australian Shipbuilding Productivity and Industrial Relations*, AGPS, Canberra, 1975,

events, although the effects of several of the six post-war elements can be discerned in the report.<sup>33</sup>

Government regulatory authorities produce reports and statistics intended for Government use but they also provide insights into their responsibilities. Of these the Annual Reports of the Australian Stevedoring Industry Authority (ASIA) go beyond industry statistics and information regarding the performance of its role of Government authority to include material on the operation of the industry. For example, progress by several Government inquiries into stevedoring and impartial reviews of the impact of waterfront technology that improved labour productivity but also led to many redundancies in the waterside workforce. The more important technical advances ASIA covers range from the early introduction of fork-lift trucks, through the later changes from manual to bulk handling of Queensland's sugar trade, concluding with the arrival of containerisation, after which the Authority was wound up, its work apparently considered completed.

#### **Academic Research and Publications**

Various aspects of shipping and its associated industries have recently been the focus of academic research. This has resulted in a number of important works ranging from books to articles that stimulated debate when they appeared in academic and maritime history journals. Few, however, provide analyses of the postwar changes to shipping or seek to identify their causes.

Containerisation, for example, attracts much academic attention, although the effects on shipping of other aspects of technical change have excited little interest. Broeze has covered the three phases of the global development of containerisation in a comprehensive overview.<sup>34</sup> In its coastal trades Australian shipping was a pioneer in the container revolution and benefited from the economies its efficiencies introduced. Broeze, however, focuses on the international trades in which the minor involvement of Australian shipping gained little of his attention. Nevertheless, the phases of the developments in the liner container trades were an important factor in the ANL's failure that is placed in context by this full exposition of their globalisation.

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<sup>33</sup> Department of Transport and Communications (DOTC), *Coastal Shipping: an Industry in Transition*. Canberra, 1987.

<sup>34</sup> Frank Broeze, *The Globalisation of the Oceans: Containerisation From the 1950's to the Present*. International Maritime History Association, St. John's, Newfoundland, 2002.

Two papers by Trace are important in understanding the reasons for the failure and sale of the ANL. The breaking up of the ANL for sale in 1995 prompted a paper that discusses the Government's interference in its operations, particularly its entrance to the international container trades, and other inappropriate trade and financial strategies that caused its downfall. Porter argues that a firm needs to adopt one of the three generic strategies of cost leadership, differentiation or focus to out-perform other firms.<sup>35</sup> Trace suggests that the ANL might have fared better had it accepted Porter's precept and provides ideas as to how the Line might have done so.<sup>36</sup> Trace's second paper, dated 1998, deals with the implications for Australia's thin liner trades of the increase in size of container vessels and the amalgamation into mega carriers of the international liner companies also described by Broeze.<sup>37</sup> As Trace explains in his earlier paper, it was the ANL's inability to meet this competition that was largely responsible for the losses it incurred in its latter years, providing a major reason for the Government's sale of the Line. Other papers among Trace's contributions to shipping literature have special relevance to the post-war decline of Australian shipping. Among these is one prepared in 1986 for the Australian Institute for Public Policy (AIPP), suggesting measures that would deliver a more efficient transport system to Australia. This requires the discussion of the relative importance of the elements comprising Australian transport and the distortions in the market for its services due to regulation and government policies. The principle of the paper's argument, therefore, has some relevance to that factor in shipping's decline that relates to the competitive advantages of its substitutes.<sup>38</sup> In 1999 Trace examined the nature and characteristics of the several types of alliances historically formed by shipping companies to boost profits through control of shipping services and freight rates.<sup>39</sup> This analysis of the characteristics of shipping alliances also discusses cartel-like arrangements similar to the ASO that was the dominant provider of Australian shipping services prior to the ANL. In a similar examination of an example of anti-competitive behaviour, Sheridan discusses the Australian/UK-Continental

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<sup>35</sup> Michael E. Porter, *Competitive Strategy*, Free Press, New York, 1980, pp. 34,35.

<sup>36</sup> Keith Trace, *Privatising the Australian National Line*, *Agenda*, Vol. 2, Number 4, 1995.

<sup>37</sup> Keith Trace, *For Tyranny of Distance Read Tyranny of Scale: Australia and the Global Container Market*, Paper delivered to the Australian Economic and Maritime History Conference, Wellington, 22-25 November, 1998.

<sup>38</sup> Keith Trace, *Towards Efficient Transport*, AIPP, Policy Paper Number 7, 1986.

Conference, the operations of which were keenly followed by unions and Government.<sup>40</sup> The union's concern that the domination of the conference by foreign shipowners would adversely affect their members' employment led to waterfront disturbances that brought them into conflict with the Government. Coastal shipping escaped neither the costs of the ensuing delays imposed by the disruption of labour supplies, nor much of the blame for them attributed without discrimination to foreign and Australian shipowners alike by the Government.<sup>41</sup>

The interaction of private enterprise and Government policy in shipping's development captured Broeze's attention in his 1992 paper that discussed these elements in the context of the Australian and New Zealand shipping industries since European settlement.<sup>42</sup> Part V deals with the post-war period and succinctly explains the Government's faith that containerisation technology would offset the ANL's cost disadvantage enough for the Line to achieve 'nationalist, strategic and economic objectives' that would increase Australia's share of its international trades. Broeze also makes a point often overlooked by other authors: he notes that the prohibitive coastal general cargo freight rates were not solely because of shipboard costs but also partly due to high port charges and shore-based handling costs that coastal cargoes bear during both loading and discharge.<sup>43</sup>

The turbulent industrial relations of the early post-war years, with their accusations by shipowners of irresponsible union behaviour and counter-claims by organised labour of reactionary attitudes on the part of shipowners have provided topics for many authors. Among these, Tull has contributed a paper that casts light on both viewpoints.<sup>44</sup> His account of pre-war and wartime working conditions on the wharves helps understanding of the reasons for the disturbed post-war industrial relations on the waterfront that disrupted shipping and adversely affected its profitability. Tull's account of the shipowners' post-war lack of interest in acquiring

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<sup>39</sup> Keith Trace, *Containerisation and Competition in Liner Shipping Markets*, Paper delivered to the Australasian Economic and Maritime History Conference, Potts Point, Sydney, 2-5 December 1999.

<sup>40</sup> Tom Sheridan, *Public Image of a Cartel: the Australia/UK-Continental Conference, 1950-1965*, *Australian Economic History Review*, XXXIV, No: 2, Sept. 1994.

<sup>41</sup> *Op. cit.* p. 42.

<sup>42</sup> Frank Broeze, *Private enterprise and public policy: merchant shipping in Australia and New Zealand 1888-1992*, *Australian Economic History Review*, Vol. 32, 2, 1992.

<sup>43</sup> *Ibid* p. 22.

<sup>44</sup> Malcolm Tull, *American Technology and the mechanisation of Australian ports 1942-58*, *Journal of Transport History*, 3<sup>rd</sup> series, Vol 6, No:1, March 1983.

the large fleet of forklift trucks introduced by the Government to improve cargo-handling efficiency also illustrates the conservatism that contributed to the stagnation from which the shipping industry later suffered.

One of the most notorious incidents in early post-war labour relations was the union boycott of Dutch vessels in support of the movement for Indonesian independence. In describing the internal machinations by which the trade union movement extracted itself from self-created adverse publicity, Buchan and Cottle suggest that the Government's interest in the affair might not have been entirely that of an honest broker.<sup>45</sup> The importance of their paper to this thesis is, therefore, the indication it provides that the shipowners' allegations of Government antipathy to their case in many of the early post-war labour disputes in which they were involved between 1945 and 1949 might have been warranted.

Looking at labour from a different angle, Richard Morris supplies information concerning the operation of a Government labour agency more directly related to coastal shipping.<sup>46</sup> The Maritime Industry Commission (MIC) was established by the Government in 1942 to regulate shipboard labour and to ensure its adequate supply. It operated until 1952, alienating both the shipowners, who accused the MIC of unnecessary generosity in conceding the claims of the Seamen's Union of Australia (SUA), and the union, whose representative alleged MIC bias and withdrew from its proceedings for ten months. The MIC controlled the supply of ships' crews, so this impartial account of its life and functions provides a helpful insight into one of the important sources of restrictions to the supply of shipping's labour.

## **Conclusion**

The accounts of some of the more important contributors to the stock of shipping literature apparently differ at the levels of both general history and specific subject as to what actually transpired. For instance, Bach and King noted shipping's early postwar decline in their general histories and attributed it to some of the forces analysed in this thesis. However, they believed the industry had recovered from its setbacks and so were optimistic about its future. Again, McKellar's history of the

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<sup>45</sup> Alastair Buchan & Drew Cottle, "Scabs or Scapegoats? A reappraisal of the breaking of the boycott of Dutch shipping, July 1946, *The Great Circle*, Vol. 22, No. 2, 2000.

<sup>46</sup> Richard Morris, *The Maritime Industry Commission 1942-52: Towards Order in Shipping Labour Relations*, *The Great Circle*, Vol. 20, No. 1, 1998.

AUSN provides ample evidence of the adverse effects on the AUSN and the industry of several of the six forces but did not predict their far-reaching consequences. Stubbs' AIDA survey of Australia's relations with its maritime industries recognised the impact of the Government on the industry, particularly ANL, but not as profoundly affecting its future. Union histories focus on the immediate social consequences of such forces as technical advance, especially containerisation, that dramatically decreased their members' employment but without admitting that their own restriction of labour supply could produce the same effect on employment over a longer period. Academic research has tended to concentrate on specific shipping issues, such as Government policy, without extrapolating their long-term potential to induce industry decline. *Prima facie*, therefore, thinking did not converge in selecting which issues in shipping were important subjects for the industry's future and so no common theme emerged. This, however, can imply a changing perspective as much as different views.

As far back as 1946, virtually everyone who wrote about shipping recognised that the industry was having difficulties. In those early post-war days emphasis was on the role of Government restrictions on fleet replacement, labour and freight rates coupled with concerns about trade union militancy. Through the 1950's and 1960's, as the loss of general cargoes to land transport gathered pace, the threat of competition from substitutes was seen as the prime source of shipping's problems. By the early 1960's the independent companies had lost most of their general cargo trades. Into the 1970's independent owners saw the ANL's dominance as their principal threat, even while the Line's remaining general trades were also being claimed by road and rail. Over the same period the costs associated with organised labour's resistance to the widespread introduction of technology and compensation for its effects were seen as negating the anticipated benefits of improved efficiency. It was the early 1980's before the Government recognised that the cumulative effect of these forces had climaxed a run-down industry whose condition was reflected in its inability to compete successfully internationally as well as domestically. Belatedly the Government initiated reforms that proved ineffective in revitalising shipping and especially in restoring the viability of the national carrier that was, as a result, sold in the 1990's. By then, most Australian shipping was effectively integrated with the operations of the mining and manufacturing sectors and became predominantly a bulk carrier industry.

## *The Australian Shipping Industry*

It is clear, therefore, that throughout the period since the Second World War Australian shipping has been under pressure from one or more of its competitive forces, although the fact that this would logically lead to the industry's decline went almost unrecognised.<sup>47</sup> Thus writers in the 1960's viewed shipping's problems from a different perspective from those writing in the 1970's, who differed again from views expressed ten years later. Shipping's decline actually commenced in 1945, immediately after the war, and affected different sections of the industry at different times and with different intensity. It is only from the time perspective of fifty years later that the problems shipping experienced throughout the post-war period become identifiable as a continuous decline. Thus, what at first appears as a divergence of views among contributors to the shipping literature is reconcilable by accepting that interpretation of the effects of a particular force affecting shipping differed from period to period according to the strength and incidence of its manifestation. Two conclusions may therefore be reached.

Firstly, there has been no attempt so far to synthesize the effects of the competitive forces that have affected post-war shipping into a consecutive and inclusive account of the reasons for the industry's decline. Secondly, some of the existing stock of shipping literature therefore requires reinterpretation. This is because since defining events such as the sale of ANL occurred, more information has become available, for example under the *Commonwealth Archives Act, (1983)*. The intent of this thesis is, therefore, to fill both gaps in the present knowledge of Australian shipping since 1945. This requires firstly the development of a framework to explain the changes in post-war Australian shipping that are manifested in alterations to its nature, task, industry-wide decline and poor profitability.

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<sup>47</sup> McKellar infers some of the post-war challenges would have been avoided had the ASO group not been too timid in 1938 to build more ships, so avoiding the shortages of 1941/42, the subsequent re-entry of the Government to shipping and the creation of the ANL. N. L. McKellar, *Derby Round to Burketown*, op. cit. p. 613.

## CHAPTER FOUR

### AN EXPLANATORY FRAMEWORK

Chapter One outlined the events of the post-Second World War period during which Australian shipping gradually lost its independent trades to other transport modes. As shipping became unprofitable many established players left the industry or diversified into other operations. Together with the newly established ANL, those few remaining private shipowners still prepared to invest in shipping turned increasingly to the dry and liquid bulk cargoes of the mining and manufacturing sectors for employment of their ships. By 2002 these cargoes generated over 90% of coastal traffic and Australian shipping became effectively integrated with the owners of the cargoes. Chapter One did not seek to explain these developments but did identify six elements that might help to explain the shipping industry's decline and transformation into its new role. These comprised industry rivalry, competition from substitutes, a change in shipping's users, restrictions on factor supply, the changed role of Government and technology. These impacted individually or collectively on all sectors of postwar Australian shipping at one time or another with differing strengths and consequences. This thesis seeks the reasons for the shipping industry's postwar loss of its competitiveness and profitability, a purpose that will be assisted by the development of a framework that will facilitate analysis of the industry's circumstances. A necessary first step to assist the search for a framework is to review theories so far developed to explain why some industries are more profitable than others.

The literature of strategic management and business policy provides a range of theories and frameworks for analysing business organisations. One categorisation of these frameworks is between aggregate industry models and organisation-level models. At the organisational level, the resource-based-view (RBV) argues the superior performance of one company over others can be better explained by the competitive advantages arising from differences in firm-specific assets and resources than by industry structure.<sup>1</sup> A key assumption of this theory is that the resources, capabilities and factor endowments of the firms comprising an industry are

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<sup>1</sup> Stephen Tallman, 'Dynamic Capabilities,' in *The Oxford Handbook of Strategy*, eds. David O. Faulkner & Andrew Campbell, Oxford University Press, Oxford, 2003, Vol.1, p.379.

heterogeneous, immobile and difficult to imitate.<sup>2</sup> Resources are tacit and codified assets, comprising physical assets (machinery), human capital and routines. Those routines of significant scale and scope are labelled capabilities, and may be either tangible, such as rules books, or intangible, such as ways of doing things. When the resources on which a successful firm draws appear to differ little from those available to industry competitors its firm-specific advantage can be explained in path-dependency terms, where resources are configured within the firm differently from its competitors. The RBV emphasises that inimitability and immobility of a firm's resources relative to competitors is due in part to historical circumstances and resource configuration complexity, including causal ambiguity.<sup>3</sup> The RBV has been expanded to encompass firm learning, where the firm shapes its own environment through its dynamic capabilities, or sets of firm-specific routines that allow the firm to reconfigure and recombine resources (assets and capabilities) into new competencies and competitive advantages. This explains the ability of firms to develop new core competencies over time and sustain or enhance their competitive position. A corollary is that investment in dynamic capabilities cannot be imitated by other firms, so maintaining the heterogeneity of a firm's resources and, therefore, its competitive advantage and performance. This extension of the RBV leads to the premise that the uniqueness of a firm's knowledge is its strategically most important resource. Differences in individual performance by companies are explained by differences in their resources, and the efficacies of their corporate strategies as a way of unlocking their innate competitive advantages.<sup>4</sup>

This is a powerful framework for analytical and empirical examination of individual firms' performance that recognises the need to link their internal resources and competitive dynamics to the external environment. The RBV, therefore, provides a useful understanding of the internal nature of firms. Their capabilities, especially knowledge, need to be developed dynamically to maintain competitive advantage. However, the heterogeneity of firms cannot be aggregated to explain the operation and performance of a whole industry. The RBV is a counter-framework to aggregate models of industry growth, operation and performance. Moreover, the focus of the

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<sup>2</sup> David J. Teece, Dynamic Capabilities and Strategic Management, *Strategic Management Journal*, 18:7, 1997, p.510.

<sup>3</sup> Pankaj Ghemawat, Competition and Business Strategy in Historical Perspective, *Business History Review*, 76, 2002, Issue 1, p.67.

<sup>4</sup> David J.Hunger & Thomas L. Wheelen, *Strategic Management*, Addison-Wesley, 5<sup>th</sup>. Edition, 1996, pp.114-115.

RBV on heterogeneity leaves unanswered questions as to how firms react to the external forces of their environment.

Contingency and population ecology theory proposes that a firm's organisation derives from the environment in which it operates. Chandler's study of changes in the evolutionary history of seventy large American companies that dominated the industries in which they clustered concluded that success derived from their management's strategy with respect to their environment.<sup>5</sup> These firms like similar firms in France, Germany and Britain, expanded by forward integration into marketing and distribution facilities and by backward integration into inputs to their manufacturing processes.<sup>6</sup> Subsequent investment in marketing, distribution and production overseas was followed by diversification, firstly into related and subsequently different products that continued to fuel expansion.<sup>7</sup> These firms were thus producers and marketers with the resources for intensive investment in technology for long production runs with declining unit costs. Since these firms reacted to mainly technological events in their external environment, they were broadly similar, sharing co-evolutionary responses.

Typically these strategies of integration and diversification in response to powerful environmental forces resulted in firms developing similar organisational structures, initially in response to the strategies of a centralised team of managers that Chandler designated the "U" form. However, as they expanded through diversification and new product lines, these firms became too complex for centralised management and their operations were broken down into semi-autonomous divisions; these have been labelled "M" form organisations.<sup>8</sup> As seen by Chandler and his successors, the sequence of further development for such large firms was one of creation of a new strategy that produced administrative problems leading to a decline in profits that was then corrected by installing an appropriate new structure to restore profitability. Changes in corporate strategy, therefore, produced changes in the organisational structure.

There are obvious differences between the companies studied by Chandler and those comprising the Australian shipping industry. For instance, the small customer base and limited resources of Australian shipping precludes comparison of its

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<sup>5</sup> Alfred D. Chandler, *Strategy and Structure*, Anchor Books, Doubleday, New York, 1966, p. 42.

<sup>6</sup> Hunger & Wheelen, *Strategic Management*, op. cit. p.228.

<sup>7</sup> Ibid, loc.cit.

<sup>8</sup> Ibid, p.231.

development with that of the huge American firms with extensive markets that Chandler analysed. Again, the American companies and their industries developed in the broad limits and expansionary conditions of a mature national environment whereas Australian shipping developed to service the transport needs of several dispersed British colonies in the restrictive environment of Britain's own maritime ambitions. Diversification of Australian shipping companies was into ancillary industries such as stevedoring and ship repair or investment in industries such as coal and sugar that provided cargoes, rather than into different products that required a hierarchy of managers. Nevertheless, Chandler postulates that corporate change can result from response to environmental circumstances and thus his work has relevance to the proposition explored by this thesis: that external forces were mainly responsible for changes in the shipping industry.

The importance of structure is common ground between Chandler and the structure-conduct-performance (SCP) school with its roots in the economics of industrial organisation (IO). IO regards industry structure as the potential source of competitive advantage, shaping the choice by its buyers and sellers and thus industry profitability, and efficiency and innovativeness.<sup>9</sup> The firm's strategy should, therefore, be to occupy a segment in an industry or a niche where its capabilities will enable it to earn above-average profits. The greatest threat to the disturbance of the firm's performance is the competitive forces exerted by threat of entry of other firms, which incumbents seek to prevent. Ideally the niche a firm has occupied should have actual or potential barriers that will assist its objective of preventing entry by other firms whose competition would threaten these profits. To maintain above-average profits the incumbent company may also need to limit the potential effects of other external forces, for example the options of its suppliers to divert vital inputs to a competitor. It may also need to restrict the choices of its customers, for instance to transfer their business elsewhere and also restrict the development of new technology if this threatens its profitability.

If the SCP paradigm had validity, it was thought, its propositions would be testable by observation; in other words there should be identifiable structural reasons why some industries are inherently more profitable than others.<sup>10</sup> A number of empirical studies of American industries confirmed that some were in fact more

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<sup>9</sup> Pankaj Ghemawat, *Competition and Business Strategy*, op. cit. p.53.

<sup>10</sup> *Ibid.* loc.cit.

profitable than others. However, the strength of the findings has been questioned because of the limited list of structural variables taken into account by the studies compared with those evident in real-world business competition.<sup>11</sup> The need for a more definitive structural analysis of an industry's attractiveness to an average firm competing within its sphere was taken up by Porter. Drawing on contingency and IO perspectives, Porter sought a more dynamic approach to industry performance by developing a five forces model, four forces external to the industry and one internal. This approach permits consideration of many more variables, bringing aggregate industry analysis closer to the complications of actual competition.

There is a clear division between firm-specific models and industry approaches to the growth and decline of industries. Of course, the RBV understands that a firm's capabilities are linked to its external environment and contingency models link the external environment back to a firm's capabilities. Porter's framework relies on Chandler's recognition that external environment can shape industries and on the IO models that argue for protection of niche markets from intrusion by competitors. But although the RBV, Chandler and the IO have widened our lens for analysing firms and industries, they do not provide the framework required to understand the rise and decline of industries. The focus of Porter's framework on an industry's reaction to external forces is more suited to advancing our understanding of why the Australian shipping industry declined after 1945. It was, perhaps, recognition of the need for a reconciliation of IO theory with reality that prompted Porter's development of *Competitive Strategy*, linking the structural analysis of an industry's attractiveness to enterprise strategy through a framework comprising the effect of external forces.<sup>12</sup>

Porter's approach offers a more promising prospect than other models as the basis of a framework for analysing changes to Australian shipping. Porter places an industry, including one in international competition like postwar Australian shipping, in a framework where its competitiveness and profitability are determined principally by external forces. Porter argues that all firms are confronted with five competitive forces: rivalry from existing competitors, threats from potential entrants, from substitutes, and from the powers of buyers and suppliers. How management responds

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<sup>11</sup> John Forster & Michael Browne, *The Principles of Strategic Management*, MacMillan Education Australia, Melbourne, 1996, p. 37.

<sup>12</sup> Michael E. Porter, *Competitive Strategy*, Free Press Edition, New York, 1998, Introduction, p. x .

to these factors is the key to understanding an industry's profitability and growth or decline. He offers the adoption of one of three generic competitive strategies that will enable a firm to compete successfully and, therefore, profitably.<sup>13</sup>

Porter's five forces model is presented in Figure 4.1.<sup>14</sup> The competitive force of industry rivalry is seen by Porter as created by existing firms jockeying for position because of several structural factors that can interact to reduce profitability.<sup>15</sup> For instance an opportunist trying to steal a march on dominant competitors or the absence of product distinction that reduces competition to price and customer service can both promote rivalry and de-stabilise an industry. Porter also argues that increased rivalry due to slow industry growth or temporary surplus capacity, perhaps resulting from short-term over-investment, can also lead to price cutting that depresses profitability. High industry exit barriers that induce firms to continue to compete at loss-making prices rather than quit constitute another source of industry rivalry. The intrusion of new competitors is another force that Porter sees as affecting profitability. Such occurrences, and their consequent effects on industry profits, are circumscribed by barriers restricting entry to the industry.<sup>16</sup> The principal barriers, he argues, are economies of scale, product differentiation, capital requirements, buyers' switching costs, access to channels for distribution, cost disadvantages and government policy. Porter's first competitive force, the threat of substitutes, appears to be assigned by him to the relatively restricted role of limiting profits in normal times and curtailing a bonanza in boom times; he mentions that their identification can be a subtle task.<sup>17</sup> Buyers can depress industry profitability, according to Porter, by forcing down prices, bargaining for better or more services and playing competitors against each other. The power they exert over a firm is commensurate with the number and strength of several characteristics such as the proportion of a firm's product they consume and their power to integrate backwards and produce the product themselves. Porter's fifth force, the existence of alternative suppliers, low costs of switching suppliers, product sensitivity to price hikes, whether a buyer's purchases are a high percentage of his costs and their importance to his final product are all seen by Porter as also

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<sup>13</sup> Ibid, p.35-46.

<sup>14</sup> Ibid, p.4.

<sup>15</sup> Ibid. p.17.

<sup>16</sup> Ibid. p. 7.

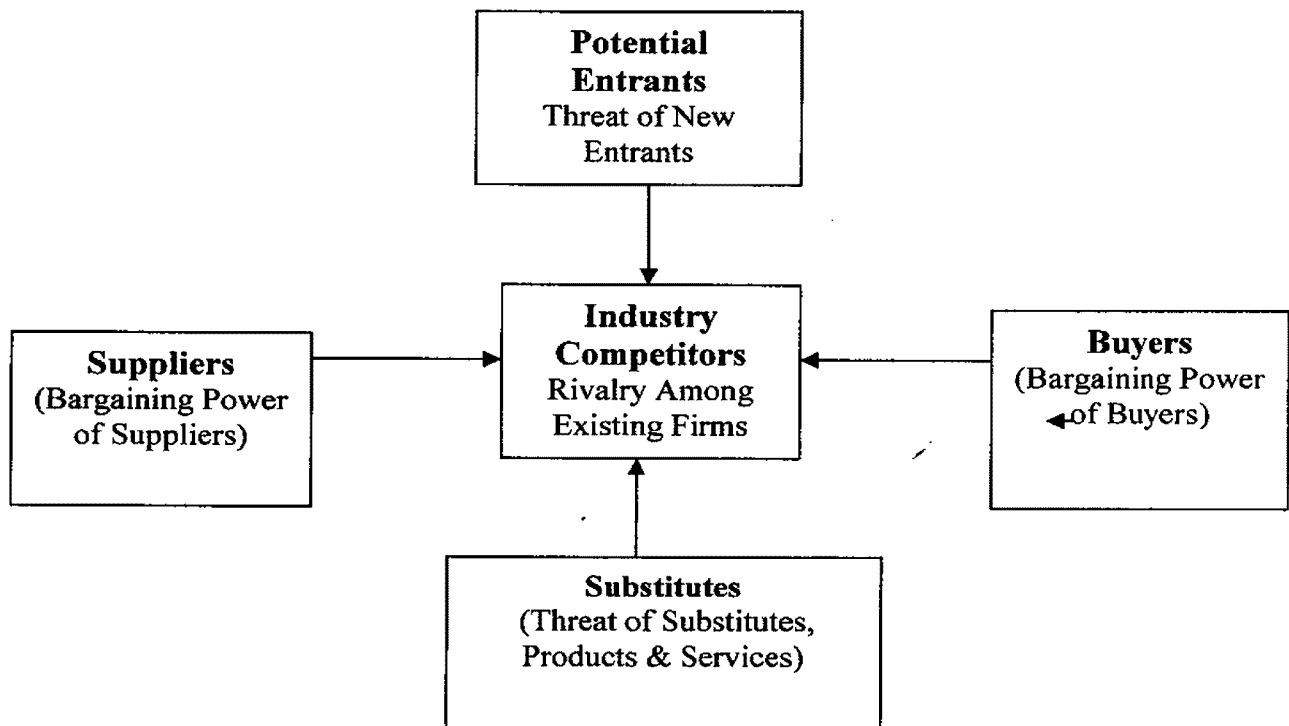
<sup>17</sup> Ibid. p. 23.

contributing to a buyer's bargaining power.<sup>18</sup> Suppliers have the ability to affect an industry's profitability by raising prices or reducing the quality of their goods and services and their potential to do so also depends on a number of factors. For instance the domination of supply by a few companies that sell to many, the uniqueness of their product and absence of substitutes. If a supplier has the capability of forward integration to compete with a purchaser that takes only a small proportion of the good or service, the supplier's power is correspondingly increased.

In adding to the ability of these five competitive forces to influence profitability, Porter ascribes to government a different but important role. This is its ability to influence profitability in its capacity as both a large buyer and supplier, as a policy maker and through regulations, subsidies to a firm or to its substitutes. However, Porter sees this government potential to affect competition and profitability as acting through his five forces rather than a separate force in and of itself.<sup>19</sup>

**Figure 4.1**

**Forces Driving Industry Competition**



**Source:** Michael E. Porter, *Competitive Strategy*, op. cit. p. 4

<sup>18</sup> Ibid. p. 27

<sup>19</sup> Ibid. p. 28

Porter also argues that to meet successfully the threats of his five forces a firm must commit to one of three broad specific strategies of which all others are variants.<sup>20</sup> These are lower costs, product differentiation and focus. Cost leadership requires efficient production facilities and rigorous pursuit of cost minimisation to reduce product prices below those of competitors. Differentiation involves establishment of a unique product or service for which the business unit can charge a premium. Focus requires concentrating on selling to one market segment where an advantage exists or can be developed. Practitioners of one these can expect to earn higher than average returns on investment, others will be “stuck in the middle”.<sup>21</sup>

There has been general acceptance of Porter’s work but it has also attracted comment and criticism. Porter sees his work as a framework that “... tries to capture the full richness of a phenomenon with the most limited number of dimensions”, rather than as a model.<sup>22</sup> Ghemawat points out that because frameworks only identify relevant variables their drawback is that they might not take account of real circumstances.<sup>23</sup> Managers, he notes, typically face many more variables than are explicit in a broad framework.<sup>24</sup> This leaves Porter open to the charge of ignoring empirical evidence. At least one study shows that only a few of the factors driving Porter’s five forces have been identified by experienced practitioners.<sup>25</sup> This indicated that only industry growth, concentration and balance affected rivalry, and only economies of scale, brand identity and capital requirements affected the competitive force of new entrants. Of these only concentration of numbers influenced the competitive threat of buyers while none of the factors Porter cited affected the competitive forces from suppliers or substitutes.<sup>26</sup>

Porter’s treatment of government is perhaps the feature of his framework that has evoked most comment with suggestions he should have allocated it the role of a sixth competitive force.<sup>27</sup> At least one analyst has done so, adding an extra force that includes a variety of “stakeholders” comprising not only government but also unions,

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<sup>20</sup> Michael E. Porter, *Competitive Strategy*, op. Cit. p. 34

<sup>21</sup> Ibid. p.41.

<sup>22</sup> N. Argyres & A. McGahan, An Interview with Michael Porter, *Academy of Management Executive*, Vol. 166, No. 2 1972 or 22722002, p. 64.

<sup>23</sup> Pankaj Ghemawat, *Competition and Business Strategy*, op. cit. p. 55.

<sup>24</sup> Ibid. p.55.

<sup>25</sup> Ibid. pp. 55-56.

<sup>26</sup> Ibid. p. 56.

<sup>27</sup> Thus, “The government as a regulator can profoundly affect industry profitability and should be considered as a sixth force.” David Besanko et. al. *Economics of Strategy*, J. Wiley, Hoboken, N.J. 2003, 2<sup>nd</sup> Edition, p. 360.

local communities, stock holders and special interest groups.<sup>28</sup> Porter himself however, has rejected these arguments for extension of his framework.<sup>29</sup> There is also evidence that some firms following simultaneously his low cost and product differentiation strategies, and thus “stuck in the middle,” have been very successful.<sup>30</sup> This has prompted questioning of his generic “focus” strategy.

Notwithstanding these criticisms there are similarities between Porter’s five competitive forces and the six new elements suggested as reasons for Australian shipping’s postwar decline. These similarities are strong enough to permit adaptation of Porter’s framework to explain the decline in the postwar profitability and role of Australian shipping.

Rivalry is a competitive force in Porter’s analysis that, with some differences also existed in Australian shipping. As explained in Chapter One, virtually no rivalry existed in Australian shipping immediately postwar because of the structure the industry had created for itself over time. In the private sector the larger independent companies dominated the interstate general cargo trades but did not compete with each other or with their intrastate counterparts. Integrated companies carried raw materials and products associated with their owners’ principal businesses. After the ANL was established rivalry developed in two phases. The first extended from the creation of the ANL until the dissolution of the ASO, the second followed the ASO’s collapse.

In the first phase rivalry for cargoes and new business developed between the ANL and the ASO and, to a lesser degree, between the ISOA and the ANL. After the breakdown of the ASO, rivalry between its former members was added to that with the ANL. Rivalry was played out as competition to provide the ships required for new trades and price competition for cargo. In a small, slow-growing industry like shipping the opportunity for capital investment occurs at relatively long intervals and in substantial discrete sums. Success in providing new vessels, therefore, largely depends on which rival has access to the cheapest capital, and in the first phase of rivalry this was almost invariably the ANL. Price competition was marked by the absence of freight rate cuts because, uncharacteristically for competitors, the private

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<sup>28</sup> R.E. Freeman, *Strategic Management: A Stakeholder Approach*, Pitman, Boston, 1984, p.140-142.

<sup>29</sup> N. Argyres & A. McGahan, *Interview with Michael Porter* op. cit. p. 64.

<sup>30</sup> David Hunger & Thomas Wheelen, *Strategic Management*, op. cit. p. 189. Toyota, Honda and Nissan are cited as examples.

owners almost invariably waited for the ANL to raise freight rates before matching them. Both parties were also represented on the Joint Traffic Committee that allocated independent and ANL vessels to cover tonnage shortages, and also agreed which ships should be laid up when coastal trade was depressed.

During the second phase the remaining independent private companies were rivals between themselves as well as with the ANL for new business. However, by that time most private companies had abandoned their general cargo trades and rivalry was, therefore, mainly confined to competition to supply ships, especially dry and liquid bulk carriers, for long-term employment on charter to oil, mining and manufacturing companies. The force of rivalry in post-war shipping, therefore, differed from that described by Porter but nevertheless requires recognition and inclusion in an analysis as to how profitability declined in post-war shipping.

Porter remarks that the identification of substitute products can be a subtle task.<sup>31</sup> In contrast, there is no difficulty in identifying air, road and rail transport as the postwar substitutes for Australian shipping. Their effects on shipping's long-term profitability and their postwar inroads into its trades were determinants in the decline of the industry to its present condition. Road, rail and air transport are integral to Australia's transport system and collectively capable of functioning as shipping's substitutes and carrying most of its best-paying cargoes. The competition offered to shipping by these modes always existed prewar but was limited by poor roads, rail gauges that differed from state to state and inadequacies of equipment. With the wartime up-grading of air and road infrastructure and the ready availability of larger, more efficient trucks this situation began to change and was supplemented by a number of other post-war developments. The trucks were ideally suited to the carriage of many of the lighter items of shipping's profitable general cargoes and as inter-haulier competitiveness soon drove their freight rates to low levels, they attracted substantial quantities away from the shorter coastal trades. The road haulage industry received a further boost in 1954 after the court's decision in the Hughes and Vale case held the taxing of interstate trucks by state governments to be unconstitutional. With the war's end, state governments began a programme of modernisation and refurbishment of their rail systems. Later they matched road's facility of door-to-door cargo shipment and began the standardisation of rail gauges that attracted cargo from

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<sup>31</sup> Michael E. Porter, *Competitive Strategy*, op. cit p. 23.

both shipping and road. The postwar convenience, frequency and affordability of air transport also made inroads into the coastal passenger trades. By 1961 these were so unprofitable that the last two coastal passenger liners were sold. The post-war threat to shipping from its substitutes was, therefore, substantially increased above its prewar level and is readily identifiable as a competitive force exerting downward pressure on profits. This requires its inclusion as an element of a framework to assist analysis of changes to the industry.

The threat to profitability from buyers of its services was not an immediate post-war development for shipping. Until the loss of their general cargo trades independent Australian shipowners were practically immune to the threat of their clients switching to alternative suppliers that Porter argues will exert downward pressure on profits. The reason was that in this, their most important trade, shipowners acted as common carriers, a role that entitles the client to the service for which he has paid but gives no right to control of the vessel. Such trades had a multitude of shippers without marine expertise so the loss of one or two was not significant to profitability. Also, the major trades were almost entirely in the hands of a cartel, leaving the shipper little alternative access to other shipping services except by backward vertical integration. General cargo is intrinsically more valuable than bulk cargo and except in unusual circumstances the risks of the service, such as mechanical breakdown or delays from strikes or other causes, are borne by the shipowner. These two factors, therefore, merited the charging of higher freight rates with the potential for greater profits than bulk cargo. With the loss of these trades to shipping's land substitutes circumstances changed. The expansion of mining and manufacturing from the early 1960's onwards created a demand for shipping services from a class of user materially different from the shippers of the general cargo days. These new clients were large companies, generally with substantial resources and often with marine experience, like the major international oil companies who were substantial shipowners internationally. They, therefore, used Australian companies to provide their shipping needs by election rather than of necessity: for example, because they wanted to distance their other employees from the benefits won by seamen from the Australian Arbitration system. Shipowners thus found themselves in a situation comparable with Porter's threat of buyers to integrate backwards and, as well as being powerful buyers, become competitors. This post-war change in the nature of demand for shipping

services, therefore, became a force that created competition between Australian companies for a diminished and less profitable role in shipping.

There were two specific threats to the profitability of shipping from its suppliers. The post-war Government restrictions on the supply of ships and labour were an experience new to an industry requiring modern vessels and a stable work force. Although official policy required all new ships to be built in Australia, in the early post-war years the shipyards were fully occupied with the Government's work. Private owners could, therefore, only buy the few ships the Government offered them at prices that, given the high costs of Australian shipbuilding, well exceeded those quoted by European shipyards. By the time the controls on shipbuilding were liberalised and private shipowners could invest freely in new vessels, foreign prices had been further swollen by inflation that increased owners' capital costs. Thus owners had no option but to meet the high repair bills necessary to operate old vessels in competition with their substitutes and the modern Government fleet. Thus restrictions on the availability of new ships created competition for their acquisition with the potential to affect the profitability of the companies requiring them.

The Government's agencies that regulated the supply of labour were unpopular with unions and owners and were accused by the latter of unnecessarily conceding labour claims during wartime in order to keep ships moving. Until derequisition, the costs of these benefits were paid by the Government, as the wartime charterer of the ships.<sup>32</sup> Accustomed to having their own way in wartime by delaying ships in pursuit of benefits, the maritime and waterfront unions continued this disruption into peacetime to press for further improvements in conditions and in reaction to the Government's regulatory agencies. However, after deregulation of the private fleets, the costs of such disruption fell on their owners. This industrial action, which often meant contrived crew shortages, seldom embroiled all ships of all owners simultaneously, but singled out those considered most vulnerable.<sup>33</sup> The intent and effect of this selectivity was to introduce competition among individual owners by tempting them to concede the claim to gain release of their vessels. Thereafter the

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<sup>32</sup> Although the SUA exploited the Maritime Industry Commission (MIC) that regulated the supply of their labour, they disliked its interference in their recruitment. Shipowners regarded the MIC as an expensive forum for the union's grievances. R. Morris, *The Maritime Industry Commission 1942-1952, The Great Circle*, Vol. 20, No: 1, 1998, pp. 51, 54.

<sup>33</sup> In 1951 Australian shipping lost 1291 ship-days through delays due to labour shortages, of which the ships of BHP incurred 456 days (35%). ASOF Circular F 10, 13/1/54. NGB, E217/134.

benefit usually passed via the Arbitration system that controlled Australia's labour supply to the ships of other owners that could be used to press fresh claims. Like regulation of shipbuilding, regulation of labour supply, therefore, introduced to shipping an element of competition capable of affecting its profitability. So, factor supply was a force whose analysis must form part of an investigation into the post-war changes to profitability that overtook Australian shipping.

Government at both Federal and State levels can also directly affect the profitability of shipping. Regulation of vessels licensed to engage in interstate trades is the province of the Federal Government. Ships registered only for the intrastate trades of a particular state fall within the legislation of that state's Government but might not, however, be free of Federal Government influence. This is because some owners elected to place themselves under Commonwealth regulation to reserve freedom to trade anywhere. Federal legislation can also impact on intrastate traders. For instance, post-war most seamen and waterside workers have been under Federal Awards. The interstate trades can also be subject to influence by state governments. If a state government, for example, invests in road and rail infrastructure without recovering the costs from users, or imposes or reduces state taxes on land transport, the competitiveness of these modes with respect to shipping can change.

Besides its pre-war role as regulator that impacted on the owners, buyers and suppliers, the Government entered post-war shipping as an independent player owning shipping in rivalry with the private companies. The Government's influence on post-war shipping thus has several strands. To overcome a shortage of tonnage that was restricting the war effort in 1941 it chartered foreign flag ships and licensed them for the coastal trade. It also revived and occupied the moribund shipbuilding industry by placing orders for a 60-ship fleet. Two Government agencies were established to regulate the supply of seamen and wharf labour. Other countries, for example the United States and the United Kingdom, that took similar wartime actions began to devolve themselves from shipowning at the war's end; the Australian Government did not. Thus for several years after 1945 the Government retained control of freight rates, maritime labour, and a large and growing fleet. Throughout the post-war period the Government also continued its policy of improving road and rail infrastructure without full cost recovery from users. The competitive positions of these modes that are integral to Australia's transport system and collectively capable of functioning as

shipping's substitutes were, therefore, enhanced with respect to shipping. In turn, shipping lost to them most of its best paying cargoes. It is notable that there were few, if any, regulatory restrictions on the supply of labour and equipment to road, rail and air transport. Porter argues it is "...more illuminating to consider how government affects competition *through* the five forces than to consider it as a force in and of itself."<sup>34</sup>

The influence of Government in Australian post-war shipping has, however, gone well beyond this. Although it gradually abandoned some of its powers, the creation of the ANL in 1956 prompted a more direct and active Government role in the industry because it now had a considerable investment of public funds to defend. This it did in various ways; by legislation, promoting its Line into trades and protecting it from turbulent labour relations that adversely affected ANL's profitability. The effects of these interventions were not confined solely to its Line. Porter does not regard government as a competitive force, not because he discounts its effects but because he does not see it as monotonic. Government in its capacity as both regulator and industry participant has, however, had a specific effect on Australian shipping industry profitability. Thus the role Government has occupied exceeded that allocated by Porter of only influencing profitability through other elements of the framework. It must therefore be included in an analytical framework as a separate competitive force, similar to that suggested by Freeman.

The development of an explanatory framework along the lines of Porter's requires expansion: the inclusion of an additional competitive force, that of technology. Technology's effects are apparent in many of the world's major ports besides Australia's, where large unused areas of former dockland now adapted to other purposes testify to the decline in the number of ships, even though the volume of cargo shipped worldwide increases each succeeding year. The exigencies of the Second World War probably produced more technical advances in shipping than the cumulative efforts of numerous preceding periods. The translation of these advances into mass availability occupied some years after 1945, but eventually proceeded at a rapid pace. Thereafter, the effects of technology became a strong theme running through the postwar shipping industry with the capacity to affect its profitability. For instance, although the introduction of technology was intended to improve efficiency

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<sup>34</sup> Michael E. Porter, *Competitive Strategy*, op. cit. p. 29.

it also increased the capital cost of a vessel and, therefore, the financial vulnerability of its owner to delays. To the union movement its introduction was synonymous with a reduction in employment and unless carefully handled prompted many strikes that impacted adversely on profitability. Again, depending on circumstances, technology affected either favourably or unfavourably the competitive position of shipping with respect to its substitutes and, *vice versa*, their competitive relationship with shipping. In the static situation that existed prior to the Second World War, when the availability of ships and labour had been unrestricted and competition from substitutes weak, technical change had been slow. In the long-term, dynamic setting post-1945, however, technical advance became rapid and developed into an external force capable of affecting shipping's competitive position.

Table 4.1 compares Porter's five forces with the six forces that have been identified in this chapter and preceding chapters as potential explanations for the postwar decline of the shipping industry.

**Table 4.1**

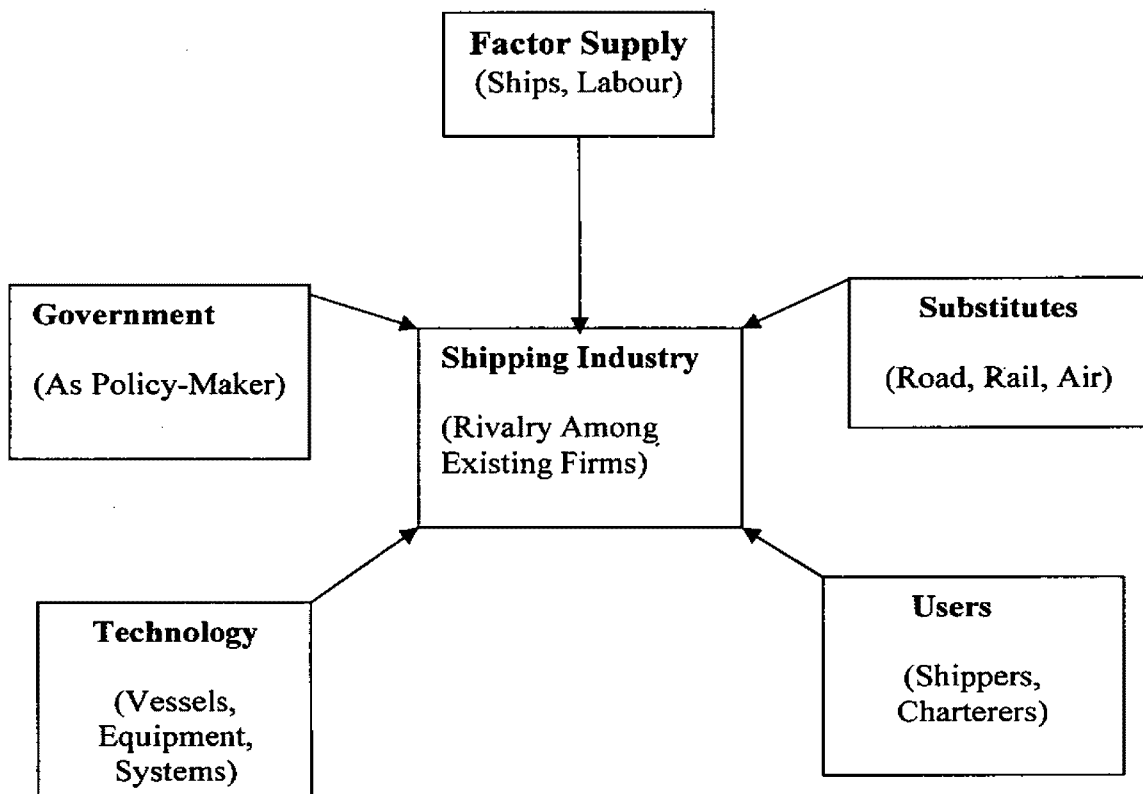
**Comparison of Porter's and Shipping's Post-war Competitive Forces**

<b>Industry Competition</b>	<b>Shipping's P'war Forces</b>
Potential Entrants	-
Suppliers	Factor Supply
Buyers	Users
Substitutes	Substitutes
Rivalry	Rivalry
Govt. (as variable)	Govt. (as force)
-	Technology

There is a general strong correlation between the two sets of forces except in some minor respects. For instance, threat of entry from potential competitors has certainly always existed and its effect on the independent sector was strongest immediately after the war from the Commonwealth's fleet, before the events that decided the ANL's establishment occurred. Thereafter the threat remained the same postwar as prewar, to both the ANL and independent sectors alike. Any firm that

wished to enter the industry could do so provided they were willing to comply with the requirements of the *Navigation Act* and take the risks of the coastal trade, especially its labour relations. This was sufficient to deter foreign flag competitors and most domestic firms so that the threat of entry remained historically low with little potential to exert downward pressure on profits. To these deterrents was added a postwar decline in profits that made entry even more unattractive. The relatively low threat of entry has, therefore, not been strong enough to be considered a separate competitive force and its effects can be accounted for in analysis of the other forces, especially Government, whose legislation was the principal deterrent. The threat from shipping's suppliers also differs from that described by Porter because it lacked the generality he envisaged. Its effects on shipping's profitability were specific and arose from restrictions on its supply of ships and labour that can, nevertheless, be regarded as a sub-set of those nominated by Porter. On the other hand, the threat to shipping from buyers was a specific example of backward integration by the new users of its services after the loss of the general cargo trades.

**Figure 4.2**  
**Elements Determining Competition in Post-war Australian Shipping**



## *The Australian Shipping Industry*

The comparisons of Table 4.1 show sufficient similarities between the two sets of forces to justify the construction of the customised framework of Figure 4.2 to assist analysis of the effects of these elements on shipping's post-war profitability. Because this framework is an adaptation of Porter's five forces, it also provides a basis for analysing the responses by individual firms to the application of his generic strategies, an advantage that a classic 'structure-conduct-performance industry approach would lack.

In a context that differs from his domestic model, Porter challenges the theory of comparative advantage when he argues that competitive advantage is a more important determinant of a nation's national wealth in international trade. He cites four determinants of national competitive advantage. These are factor conditions (strength in the factors of production), demand conditions (nature of home demand), related and supporting industries (presence or lack of them) and firm strategy, structure and rivalry (a firm's creation, management and reaction to domestic rivalry). He develops his argument by linking these forces in a "diamond" framework, showing how they and two variables, chance and government that are not included in the diamond, shape the international success or failure of a nation's firms. Some of these forces have a relationship to another aspect of shipping's unsatisfactory profit performance that requires analysis but cannot be explained by the domestic forces of the framework.

From the mid-1960's Australian shipping, especially the ANL, became more involved in the international cargo liner and bulk trades. There is no doubt that the Line's lack of success in responding to the challenges of internationally generated competitive forces contributed heavily to the ANL's financial losses that led to its sale and thus to the further subsequent decline of Australian shipping. Some of the domestic competitive forces of shipping's explanatory framework - for example demand conditions and industry rivalry - also appear as determinants of international success in Porter's "diamond" analysis that, therefore, have potential applicability to an explanation of ANL's inability to achieve consistent profitability in international trades.

## CHAPTER FIVE

### 1945-1949: STAGNATION AND DECLINE

In the aftermath of war the Australian shipping industry struggled from 1945 to resume profitable peacetime trading in an environment of unaccustomed restrictions. These derived from the newly established presence as a shipowner of an unsympathetic Government, its restrictions on shipbuilding and labour and, latterly, competition from substitutes. Shipping's efforts to resume peacetime services were hampered by these restrictions until 1949, after which they were progressively eased by a new Government. The period from 1945 to 1949 was characterised by investment stagnation and industry decline and was, therefore, perhaps the post-war nadir of the shipping industry. As such it merits analysis as a separate period in Australian shipping's post-war history.

In 1945 two factors previously unknown in peacetime by Australian shipping cautioned that its return to normal trading might not be smooth. These were a Government presence, which wartime exigencies had required strengthening beyond its pre-war role of safety authority, and restrictions on the industry's access to new vessels and labour that provide two forces of Chapter Four's explanatory framework.

#### **Elements of the Government's Presence and Policies**

Porter acknowledges all levels of Government policy as a force in industry competition but believes it more illuminating to analyse its effects on competition through his other five forces rather than to consider it as a separate force. Chapter Four argues that in the case of Australian shipping the Government's presence extends beyond that defined by Porter to a factor whose direct influence on shipping's post-war profitability justifies its inclusion in the industry's explanatory framework as a separate force. Over the first two years of peacetime, one manifestation was in uncertainty for the 90% of Australian shipping remaining in private hands. Fleets like BHP's that were integrated with the main businesses of their owners had mainly operated in their usual trades during the war so could expect a relatively seamless return to peacetime trading. But the ships of independent private owners were requisitioned for wartime service by the Government and traded as directed by the Shipping Control Board (SCB). Requisition and SCB control lasted until 1947 during

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which period their owners' return to normality was confronted by a number of uncertainties. The main source of uncertainty was an extension of the Government's role in shipping, for the first time since the sale of its Commonwealth Line in 1929, from that of industry safety regulator to one of shipowner. This expanded Government role originated in 1942 with its charter of nineteen vessels from the British Ministry of War Transport to redress a shipping shortage. This change was supplemented by revitalisation of the moribund domestic shipbuilding industry from which the Government ordered 32 ships. In 1941 the Government had taken control of the supply of seamen and wharf labour to ensure these were adequate. These arrangements were supervised by three Government agencies. The Maritime Industry Commission (MIC) and the Stevedoring Industry Commission (SIC) respectively controlled the supply of seamen and wharf labour. The Australian Shipbuilding Board (ASBB) conducted relationships between the Government and shipyards while supervising construction of its fleet.

The Australian Government was not alone in building and owning ships during the war years. Notably both the British and United States Governments also acquired large fleets most of which, in Britain's case, were operated by private companies to make up for their war losses. Before the end of hostilities both countries declared their intentions of exiting shipping, disposing of their ships by sale or laying up surplus tonnage. While this took several years because of the intervention of the Korean War and other emergencies, the trend was always towards the return by these governments of their commercial shipping to private enterprise and this was finally accomplished. Australian shipowners thus anxiously waited for the Australian Government to declare its policy.

By 1945 the Government had not stated its peacetime policy for the shipping industry. Thus the large fleet it was building and its continuing control over the industry's sources of labour caused serious misgivings for the independent owners, whose objective was to regain their dominance of the coastal trades as quickly as possible. For instance, what was to be the future use of the Government's fleet, of which twelve ships were completed by 1945 and which was rapidly expanding? How long would the marine regulatory agencies created by the Government continue? Would control of freight rates, last raised in 1942, end and thereby allow

accumulation of the funds needed for the refurbishment and replacement of ships neglected during wartime? Most importantly, would the Government derequisition their ships and relinquish direction of their trades or would it nationalise the industry?

<sup>1</sup> Although some independent owners believed they were protected, nationalisation would not have been difficult while their ships remained requisitioned and a perhaps attractive option to a Government apparently wedded to a policy of public ownership of key industries.<sup>2</sup> The answers to these questions were obviously important to companies that needed to make investment decisions regarding replacements for their ageing fleets and to plan their return to peacetime trading. Until the Government announced its peacetime shipping policy it was prudent to defer decisions regarding capital investment.

In fact, by the end of 1945 the Government had already made a number of decisions that substantially decided its post-war shipping and shipbuilding policy. These resulted from the work of an inter-departmental committee appointed in January 1944 that reported in February 1945 and most of whose recommendations the Government accepted.<sup>3</sup> One was that merchant ship construction be reduced to 32,000 tons annually over three years, the tonnage estimated as necessary to maintain the fleet at its existing level.

...there appeared to be no need for expansion in the coastal fleet. ... The committee did not rule out the possibility of some increase in the size of the fleet, but this was left for future consideration by the Department of Supply and Shipping when more evidence was available about the trend of coastal traffic after the war.<sup>4</sup>

This was contrary to a proposal by the ASBB to expand the Australian merchant fleet from its pre-war capacity of 450,000 deadweight tons to 750,000 tons over ten years, a construction rate of 70,000 tons annually. This implied that if

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<sup>1</sup> In 1945 the Government had passed the *Australian National Airlines Act* allowing nationalisation of the industry. The Act was subsequently ruled invalid by the High Court. Ian Sabey, *Challenge In the Skies*, Hyland House, Melbourne, 1979, p.14.

<sup>2</sup> The shipowners own perception of their position afforded some reassurance against nationalisation. "The interstate companies have been placed in a difficult position by a Government whose stated policy is nationalisation of transport ... . They [the ASOF] consider their position is strengthened by the fact that between them they own a large fleet built at pre-war costs, and under the Federal Constitution, the industry can only be taken over by the Government on payment of just compensation." Letter Mackay, MH, to Hotblack, AUSN, 17/9/45. ML. MSS 4548 146/361.

<sup>3</sup> Cabinet Agendum Item 76/1945. CRS A2671, NAA.

<sup>4</sup> The committee's view was that the change in shipping's task from wartime to peacetime was only a change from carrying materials for war production to one for consumer demand. S. J Butlin & C. B. Schedvin, *The War Economy 1942-1945*, Australian War Memorial, Canberra, 1977, p. 763.

demand for shipping increased, for instance in response to economic growth, a shortage of shipping could occur, a possibility the independent owners soon recognised.<sup>5</sup> Another of the committee's recommendations, adopted as policy by the full Cabinet in August 1945, was that the Government would continue to build ships, and retain ownership of them.<sup>6</sup> This decision would have probably been the most concerning to the private owners had they been aware of it, because by 1946 the size of the Government's projected fleet had reached 62 vessels.<sup>7</sup> Some were obviously intended to substitute for the foreign ships under Government charter, others to replace obsolete or inefficient tonnage. Equally obviously, there would be a net increase in the size of the Commonwealth's fleet already fully employed and therefore necessary to maintain the coastal trade.<sup>8</sup> The options for its future use were thus as a basis for nationalisation of the industry, retention of all or some ships to compete with the private owners or sell the fleet partly or wholly to them. In fact the Government had resolved against nationalisation in 1945 on the recommendation of its inter-departmental committee, but had not accepted another: that it should dispose of its fleet.<sup>9</sup> The interstate companies seem to have gleaned some indication that a Government line would be set up in opposition to them.<sup>10</sup>

Another decision, that Government control of routes, sailings and freight rates would continue, implied it had not yet decided when (or if) shipowners would be allowed to resume independent peacetime trading. Freight rates were a particular concern to owners because in 1945 they remained controlled at 1942 levels that were

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<sup>5</sup> "... it now seems apparent that the ASO companies will have difficulty in covering the requirements of the Australian trade with the tonnage remaining at the conclusion of the Pacific war much of which will be obsolete." Letter Mackay, MH, Sydney, to Hotblack, AUSN, London, 7/7/45. ML MSS 4548 146/361.

<sup>6</sup> Cabinet Agendum Item 900A to 900E, 27/8/45, CRS A2700, NAA.

<sup>7</sup> The Government announced that 37 of its programme would be completed by 1947 and the remaining 25 over the ensuing 5 years. *The SMH*, 3/4/46

<sup>8</sup> General Letter 4/47, 17/3/47, MH, Sydney, to AUSN, London. ML. MSS 149/361.

<sup>9</sup> A submission to Cabinet by the Government's inter-departmental Sub-committee on Shipping and Shipbuilding recommended against nationalisation of shipping and that, provided the Government could obtain acceptable prices, it should sell or charter all its ships, except those suitable for overseas trading as a Commonwealth Line. The Government accepted the former recommendation, but not the latter. Submission to the Cabinet Sub-Committee on Shipping and Shipbuilding from the Inter-departmental Committee Appointed to Report on the Question of Ownership of all Ships Built to Commonwealth Government Account., 1 December 1945, Cabinet Agendum Item 900, CRS A2700/5, NAA.

<sup>10</sup> "It is known that the Commonwealth Government is contemplating the operation of ships on the coast and elsewhere on its own account but so far there has been no official announcement of its intentions."

inadequate to cover increases in operating costs, such as seamen's remuneration, and to provide for fleet renewal. While their ships remained requisitioned, the Government as their charterer bore such increases as had occurred during the charter period, an indemnity that would cease with derequisition. These concerns were early expressed to the Prime Minister by the ASOF:

In order that the companies may be in a position to operate their vessels on a reasonably remunerative basis, the question of freight will require careful consideration and if the present rates do not suffice it will be a question for determination by the Price Fixing Commissioner... whether increases are to be permitted and, if so, to what degree.<sup>11</sup>

In another policy item the Government had also decided only vessels built in Australia and less than twenty-five years old would be licensed to engage in the coastal trades, a matter of concern for owners of units well exceeding this age. If the Government had announced its policies, these decisions would have confirmed some of the shipowners' worst fears, while others would have been allayed. For instance, the decision had also been taken to restore requisitioned shipping to its owners as soon as possible and this indicated the Government had abandoned the idea of nationalisation.<sup>12</sup> The Government also accepted its committee's findings that domestic construction of its shipbuilding programme to maintain the Australian shipyards would need to be subsidised.<sup>13</sup> Unfortunately, the Government committee's final recommendation that "Public announcement of the Government's policy be made" was not executed, notwithstanding the Minister's advice to Cabinet that procrastination in declaring a policy already decided prevented the private shipowners from planning their futures:

So far as coastal shipping is concerned, the position is that no clear statement of the Government's intentions in this regard [policy] has been made, and the Australian interstate companies, in the absence of clear advice of the Government's policy as it

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General Letter 4/47, MH, Sydney, to AUSN, London, 17/3/47, reporting on an earlier press report. ML. MSS 4548, 149/361.

<sup>11</sup> Letter to the Prime Minister from the Chairman, ASOF, 5/8/46, NGB E217/121.

<sup>12</sup> The Government's committee on shipping and shipbuilding did, in fact, consider nationalisation but thought it "... doubtful whether this could be successfully carried out except over an extended period, or whether it is economically advantageous because of the age of some ships in the fleet." Submission by Inter-departmental Committee on ownership of Government Vessels, to Cabinet, op. cit, 5/12/45, Agendum Item 900A to 900E.. CRS A2700/5 NAA.

<sup>13</sup> The report of the Government's Shipping and Shipbuilding Committee envisaged that this level of construction would require an estimated annual subsidy of between one and two million dollars to equalise domestic and overseas building costs. S. J. Butlin & C. B. Schedvin *The War Economy 1942-1945* op. cit. p. 495.

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would affect them, are unable to plan for the re-establishment of their fleets and for their post-war arrangements generally.<sup>14</sup>

The Government's policies were not made clear in legislation until the introduction of its *Shipping Bill* in 1948. Meanwhile the independent shipowners' suspicions of its intentions regarding nationalisation and the use of its fleet continued, amid conflicting reports that created uncertainty and suspicion.<sup>15</sup> On its introduction to the Senate, the Bill confirmed several of the shipping companies' worst fears.<sup>16</sup> Firstly, it provided for a new Australian Shipping Board (ASB) with powers "...to establish, maintain and operate...shipping services for the carriage of passengers, goods and mails".<sup>17</sup> This confirmed the Government's intention to compete with the private companies, but it also implied that those companies that operated the Commonwealth's ships would lose their income from port agencies and their fees as the vessels' managing agents.<sup>18</sup> The private companies, therefore, wrote to the Prime Minister suggesting that a cheaper option for the Government would be to leave its ships under the management of the private shipping companies.<sup>19</sup> The Prime Minister's reply rejected the proposal, saying, "the enterprise is too considerable and the financial responsibility too direct for the Government to act in the manner you desire," but then added some comfort:

It is not the intention of the Government to nationalise the shipping industry nor is it felt that the establishment of a Government Shipping Line will automatically lessen the volume of business available to private owners.<sup>20</sup>

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<sup>14</sup> Commonwealth Shipping Policy, Memorandum to Cabinet, 26/6/46, by W.F. Ashley, Minister for Shipping, Cabinet Agendum Item 1200. CRS, A2700, NAA.

<sup>15</sup> Examples of such conflicting information occur in correspondence from MH to AUSN. The first, of 2/5/47, reports on a meeting with the Prime Minister. "I should like to make it clear that at no time did he [the PM] state definitely that a Government Line will be set up." His second, of 9/6/47, comments, "Hetherington [Director of Shipping] told Potter [a shipping executive] that government ships will definitely be operated on the coast and in overseas trades." Letters Rickards, MH, Sydney, to Campbell, AUSN, London, 2/5/47 and 9/6/47. ML.MSS. 4548, 146/361.

<sup>16</sup> The Bill was introduced on 8 December 1948. E127//216 NGB

<sup>17</sup> *Shipping Bill, 1948*, Division 2, Part II, Section (15) (1) (a) (i).

<sup>18</sup> As a preparatory step to operating its own fleet, the Government terminated the managing agency agreements with the private companies for its vessels on 1/10/47, itself assuming responsibility for owners' matters such as crew employment etc. However, the private shipowners continued to receive 5% commission on freight and still attended to traffic and stevedoring matters. General Letters 10/47 and 39/47, MH, Sydney, to AUSN, London. ML. MSS. 4548, 149/361.

<sup>19</sup> Letter from ASOF Chairman to Prime Minister, 15/10/48. File 1. McIlwraith McEacharn Limited Papers (MMLP), Australian National Maritime Museum (ANMM). MML/1, ANMM.

<sup>20</sup> Letter from Prime Minister to Chairman, ASOF 1/11/48. E217/126. NGB.

Chapter Four's explanatory framework departs from Porter's paradigm inasmuch as it leaves threat of entry to be accounted for in analysing other forces, specifically Government ones. However, the deterrent effect of the *Navigation Act* on the entry of other firms, especially foreign, was negated in the case of the Government because of wartime necessity, then ideologically sustained post-war. Without its pre-existing involvement, any Government might well have avoided entrance to an industry with declining prospects. Making the best of its situation, the Government's Bill contained another provision that gave the shipping companies even greater concern, because it allowed the Government Line to enter any trade on the decision of the appropriate minister.

Where, in the opinion of the Minister, a shipping service is necessary to meet the requirements of a particular area and it is desirable in the public interest that a shipping service should be provided ... the Minister may direct the Board to establish, maintain and operate a shipping service ...<sup>21</sup>

The Bill then went even further by providing that where the Board had established such a service and it had operated at a loss in any financial year, and the whole operations of the Board (after providing for reserves), resulted in a loss, then "... the Board shall be entitled to be reimbursed by the Commonwealth to the extent of such loss, or to the extent of the second-mentioned loss, whichever is the less."<sup>22</sup>

The combined effect of these provisions was potentially to impair the ability of the private companies to compete against the ASB for new business on commercial terms unless in the unlikely event the Commonwealth Line was restricted to reimbursement for entry to loss-making trades private companies would not operate.

The Bill also confirmed the Government's support for the Australian shipbuilding industry by requiring a ministerial licence for the construction of vessels, the principal characteristics of which (including design, tonnage and place of construction) would be determined by the Minister.<sup>23</sup> In effect, any new tonnage built would be to designs approved by the Australian Shipbuilding Board (ASBB). The overall effect of the Bill on the shipping industry was, therefore, confirmatory of the

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<sup>21</sup> The Shipping Bill 1948; sub-section (15) (2)

<sup>22</sup> Ibid sub-section (15) (5)

<sup>23</sup> Ibid. Section (29)

Government's intention to increase its participation in shipping and generally to restrict independent owners' freedom of operation.<sup>24</sup>

The ASOF companies expressed their objections to the Government on the Bill's provisions, especially those seen as restricting their operations and giving the proposed Government line an unfair advantage.<sup>25</sup> They also took legal opinion on the Bill but received no support for an attack on its Constitutional validity.<sup>26</sup> Lobbying the Federal Opposition leader, R. G. Menzies, K.C., produced some eloquent parliamentary exchanges, but did not sway the Government.<sup>27</sup>

So we must have a scheme under which a socialist Minister may enforce the complete 24 years rule, give preference to the Shipping Board in the construction of new ships and so ultimately drive the private ships off the water and create, by that simple process, an utter monopoly of interstate shipping in the hands of Government leaving the public without the blessed advantages of competition ...<sup>28</sup>

The legislation also drew adverse comment in the press and from institutes for public affairs, although one newspaper inferred that the shipowners' protests might be half-hearted.

Strangely enough the Shipping Act has received little publicity and the shipping companies have made no protests of the kind that might have been expected had they believed their very existence to be threatened.<sup>29</sup>

The Bill was passed on 15 March 1949, but for un-stated reasons was not proclaimed prior to the Government's defeat in December 1949.<sup>30</sup> The private

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<sup>24</sup> For instance, "This Bill ... does not profess to be a Bill to nationalize the industry but ... the powers that are to be taken ... will undoubtedly lead to the extinction of the private shipping industry and if that is not nationalization school children will have to be given some other understanding of the word." Parliamentary Debates, 15/3/49, Vol. 201, R.G Menzies, Member for Kooyong, p.1044. Again, "Nevertheless there is no doubt that if this or any future Government were to decide that the shipping companies should be nationalised ample power has been conferred by the Shipping Act to enable this to be done." *The Argus*, Melbourne 22/3/49.

<sup>25</sup> The shipowners were particularly concerned at the powers of the ASB under the Bill's Section (15) to enter any trades and be reimbursed if losses were incurred. They also sought a right of appeal to the Minister's powers under Section (30) to withhold coasting licences from any ships built overseas or exceeding 25 years old. Letter Deputy Chairman ASOF to Members, ASOF Circular F.E217/126, NGB.

<sup>26</sup> ASOF Circulars F.212 and F.251 of 13/7/49 and 26/8/49 attach opinions to that effect. E 217/127, NGB.

<sup>27</sup> "Copies of Mr. Edwards Memorandum [ASOF chairman] have been handed to senior Opposition members who have already used in their speeches the data provided about shipbuilding cost and licensing. ... Attached is a list of questions I had drawn up in collaboration with Mr Menzies' [Opposition Leader] secretary." Letter to ASOF Members, 12/3/49, R. A Coutts, Deputy Chairman. ASOF, Circular F.71, E217/127, NGB..

<sup>28</sup> This, Menzies said, would enable the Government to acquire the businesses of shipping lines "not on just terms but by a process of elimination." Parliamentary Debates, Vol. 201, 18<sup>th</sup>. Parliament, 2nd Session, 1948, p. 996.

<sup>29</sup> *The Argus*, 22/8/49.

companies were therefore saved from the necessity of responding to a Government line's rivalry during the remaining months the Government held office.

### **Restrictions on the Supply of Ships and Labour**

In terms of the explanatory framework, the second factor accounting for industry's stagnation in this first post-war period was the restrictions on the supply of new ships and access to labour, perhaps more specific examples of the competitive force Porter identifies generally as the bargaining power of suppliers.<sup>31</sup> In the case of new ships, the restrictions derived from the Government's legislative monopoly over their supply; in the case of labour, from control of supply by Government regulatory agencies, and by unions through the *Arbitration Act's* reservation of specific tasks to their members.

There were several aspects to the restrictions on fleet replacement. By 1946 shipowners had surmised that Government policy when revealed would require that all new ships be built in Australia to sustain domestic shipbuilding that had been revived for Government use during wartime.<sup>32</sup> Between 1939 and 1945 the independent owners had been unable to build new ships, so by the war's end many were run down and required replacement. All shipyards were fully engaged for several years ahead on Government work. Thus the only short-term source of new tonnage for the independent companies, if the Government introduced a policy of Australian building, would be if it offered to sell ships to them from its building programme.<sup>33</sup> Building in Australia also implied shipowners would lose their choice of builder and building specification because the ASBB controlled design and construction. So, unless companies were allowed to modify these standardised designs, available vessels might be unsuited to their trades.<sup>34</sup> It was also likely that, even when

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<sup>30</sup> A possible reason is that the Government was too preoccupied with preparations for the General Election to establish the management infrastructure needed to operate its own shipping line.

<sup>31</sup> M.E. Porter, *Competitive Strategy*, op. cit. pp.27-28

<sup>32</sup> "We learned yesterday that the Commonwealth Government decided that in future any tonnage for coastal trade would be purchased by the Government and no permit granted to individual companies to build or buy abroad." Letter Rickards, MH, Sydney, to Hotblack, AUSN, London, 28/3/46. ML. MS4548 146/361.

<sup>33</sup> The industry had apparently soon realised it would be required to build its ships in Australia. "We learned yesterday that the Commonwealth Government decided that in future any tonnage for coastal trade would be purchased by the Government and no permit granted to individual companies to build or buy abroad." Letter Rickards, MH, Sydney, to Hotblack, AUSN, London, 28/3/46. ML. MS4548 146/361.

<sup>34</sup> "The requirements of the Australian shipping trade naturally call for the employment interstate and intrastate of several vessels of specialised types. ... One important consideration is therefore that ... a

shipowners were permitted to order new vessels, their delivery by the inefficient, strike-ridden Australian shipyards would be delayed past the contracted date.<sup>35</sup> Legislative confirmation of Government policy was not enacted until the Government's *Shipping Bill* of 1948, although in 1946 a Ministerial letter contained its major features, such as that annual shipbuilding would be confined to approximately 32,000 gross tons and, "... coastal ships generally ... shall be built in Australian yards and that no vessel will be licensed for coastal trading after it has reached the age of 25 years."<sup>36</sup>

The Minister's letter clarified the Government's intentions to some extent but gave the shipping companies little comfort. Because wartime had interrupted fleet replacement, many of their ships now exceeded the twenty-five years' age limit. Also, because building costs in Australia were escalating more rapidly than overseas they faced the difficulty of accumulating the extra funds. The higher freight rates required to service this increased capital would undermine the vessels' competitiveness unless construction were subsidised.<sup>37</sup> The Minister's letter included no indication of subsidies for domestic shipbuilding that would equate the costs of domestic construction to those overseas, perhaps in Britain, the usual source of new tonnage for Australian shipowners.<sup>38</sup> Shipowners could also expect delays from the requirement they deal with the shipbuilder through the ASBB that controlled all construction in

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company if restricted to building in Australia is confined to the building of a more or less standard type of ship and ... has little knowledge of what will be the ultimate cost or delivery date." Letter to Minister for Supply from Chairman, ASOF, 1/8/50. 217/128 NGB.

<sup>35</sup> The inefficiency of Australian shipbuilding stemmed from the dispersion among several shipyards in four states that created "difficulties in maintaining a steady and reasonable flow of production and , because of this, the inability to sustain effective planning and production control." Department of Transport, *Shipbuilding Productivity and Industrial Relations in Australia*, AGPS, Canberra, 1975, p.19.

<sup>36</sup> Letter of 30/5/46 from W.F Ashley, Minister for Supply and Shipping, confirming the Government's intentions stated at his meeting with ASOF representatives of 16/5/46. ASOF. Circular F.110, 31/5/46. NGB E217/121.

<sup>37</sup> "In the absence of any intimation of the cost of building ships in Australian yards it is impossible to form an opinion whether they would prove an economical proposition for the coastal companies." Letter from Secretary AUSN, London, to Secretary MH, Sydney, 9/8/45. ML. MSS 144/361

<sup>38</sup> According to a former executive at Sydney's main shipyard, Cockatoo Island, "The system of building ships here is the time work method; in Britain and the USA it is piecework. Quite apart from the longer and more intensive experience of the workers in Britain and the USA and the fact that the yards are better equipped it is impossible to build ships under the time work system on an economic plane as against the piecework method." Although they had temporarily relented during wartime, "In the heavy iron industries of Australia, the unions are adamant in their refusal to accept the piecework system." *The SMH*, 18/4/45.

Australian yards. With time, the restrictive effects on companies' operations of the announced and anticipated shipbuilding policies were realised.

For shipowners the end of hostilities was not accompanied by return to the unrestricted access to its labour that had been a feature of the pre-war shipping industry. In 1942 the Government had established the Maritime Industry Commission (MIC) and the Stevedoring Industry Commission (SIC), regulatory agencies whose respective functions were to ensure the supply of seamen and wharf labour. The Government extended into peacetime the lives and functions of both agencies.<sup>39</sup>

The MIC comprised Government, union and employer representatives and had wide regulatory powers over the supply of ships' crews.<sup>40</sup> According to Morris, "In effect much of the MIC's work was to involve the micro-management of the shipping labour market."<sup>41</sup> Although the SUA resented the MIC's application of its disciplinary powers, the union not surprisingly favoured its presence that assisted the union to attain its objectives.<sup>42</sup>

... for the first time in the history of this country [the MIC] made shipowners extremely vulnerable to the demands of the maritime unions, an opportunity which the SUA in particular energetically seized.<sup>43</sup>

With the return of peace these objectives were ambitious and, whatever their merit, likely to be met with employer resistance because of their cost.

Regarding conditions, more was required. The Union wanted the maintenance and increase of wartime wage rates, the 40 hour week, mess attendants, menu equality, catering improvements. Most of all it wanted stabilisation.<sup>44</sup>

Neither did the SUA disguise the weapon it intended to use to obtain these benefits:

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<sup>39</sup> Unless the Government had legislated to extend the lives of the MIC and SIC, their operations would have terminated when the *National Security Act's* operations ended on 31/12/46.

<sup>40</sup> The MIC's charter was "... to secure during the present war the adequate and efficient manning of Australian merchant ships and the improvement and safeguarding of the conditions of all persons serving therein." Brian Fitzpatrick & Rowan Cahill, *The Seamen's Union of Australia*, op. cit. pp. 136, 137.

<sup>41</sup> Richard Morris, *The Maritime Industry Commission 1942-52*, *The Great Circle*, Vol: 20, no: 1, 1998, op. cit. p.47.

<sup>42</sup> In 1943 the SUA's Federal Secretary, Elliott, withdrew from the MIC for ten months alleging the Government was 'disregarding the voice of organised labour'. Brian Fitzpatrick, & Rowan Cahill, *The Seamen's Union*, op. cit. p. 158.

<sup>43</sup> Ibid.loc. cit.

<sup>44</sup> Ibid. loc. cit. The SUA's *The Seamen's Journal* of September 1945 also contained a fuller list of claims that included a 25% pay increase, improved workers' compensation, income tax concessions and the establishment of social clubs.

The *Seamen's Journal* of May 1946 stressed the need for continual struggle and never ending pressure to gain better conditions for seamen. The hold-up was employed by the Union as a guerrilla tactic against shipowners throughout this [immediate post-war] period and many Union demands were met.<sup>45</sup>

The union saw the strong peacetime demand for shipping services and, therefore, as favouring its struggle for its members.

In terms of strategy the Union was in an advantageous position. During the post-war years and early 'fifties there was an interstate shipping boom. Shipowners wanted to keep their ships moving, maximise profits and generally take advantage of the boom. They were thus susceptible to union demands.<sup>46</sup>

The stage appeared set for a period of industrial disruption that was likely to test the MIC's skills and authority in its capacity of ensuring an orderly labour supply. Shipowners were unequivocal in their dislike of the MIC, not only because they resented its interposition between them and their employees but also because they regarded it as too ready to settle disputes by conceding claims rather than by using its disciplinary powers.<sup>47</sup> This was because, although the Government as charterer of their vessels bore the costs of benefits awarded to labour after the charter commenced and most of the costs of extended voyage times caused by the strikes of waterfront labour, these would add to the costs of the shipowners after derequisition and undermine their competitiveness.

Stevedoring is an industry distinct from shipping but an important ancillary to it. From 1945 the private companies were so involved in the ownership and operations of stevedoring, and so affected by its labour problems, that a discussion of post-war shipping is incomplete without including its relationship with its ancillary.<sup>48</sup> During the Second World War the position of the Waterside Workers' Federation (WWF), the SUA's sister union, had strengthened so that it now dominated waterfront labour

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<sup>45</sup> Ibid loc. cit.

<sup>46</sup> Ibid. loc. cit.

The "boom" was a shortage of shipping caused by a decrease in its productivity that extended voyage times on controlled freight rates. The term cannot be taken as evidence that high profits were earned by shipping in this period.

<sup>47</sup> "The MIC only succeeded in keeping the majority of interstate shipping running by following a general policy of appeasement to the militant seafaring unions concerned..." Letter Rickards, MH, Sydney, to Campbell, AUSN, London. 12/7/48. ML. MS4548 149/361.

<sup>48</sup> Refer fn. 5 Chapter One.

relations.<sup>49</sup> It, too, had maintained a campaign of disrupting ships to win improved wages and conditions. In 1945 these showed no signs of abating, for,

Once the war had ended, the WWF embarked on various campaigns for improved wages and conditions: in late 1945 it determined to press for a 40 hour week as soon as hostilities ceased, in early 1946 it sought sick pay as applied in other industries, and an award for permanent employees.<sup>50</sup>

The SIC also included union and employer representation. Its original purpose of ensuring the supply of wharf labour in the chaos, shortages and strikes that prevailed on the Australian waterfront during wartime was also extended into peacetime. The SIC performed this task through its labour bureaux located in all main ports. Its powers extended to control of most aspects of employment except wages, which remained the responsibility of the Commonwealth Conciliation and Arbitration Commission. The SIC was also regarded by employers as over-generous and intrusive in the relations between them and their employees and was resented by the latter because of its disciplinary powers. In the early post-war years the SIC faced a difficult task because stevedoring, like many other industries, experienced a shortage of labour. This arose from a strong increase in demand for consumer and capital goods after four years of war that was matched by an equally strong demand for shipping to distribute these goods. This then created a strong demand for labour heightened by a decrease in its productivity that Butlin and Schedvin tentatively put at 8% and 19% for overseas and coastal cargoes respectively.<sup>51</sup> It was, therefore, particularly apparent in imports and exports that increased respectively by 223% and 164% between 1945/46 and 1949/50.<sup>52</sup> Coastal shipping was fully employed and although cargo volumes were little changed from 1939, because coastal cargoes were handled twice within Australia the demand for WWF labour was approximately the same as for overseas shipping. Labour shortages were further exacerbated by the WWF's delay of ships as it pursued

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<sup>49</sup> In 1943 the SIC presided over the establishment of the WWF's control of waterside labour when it refused to register any new members of the Permanent and Casual Wharf Labourer's Union, a rival to the WWF. The P&CWLU slowly atrophied until 1955 when the WWF subsumed its remaining members.

<sup>50</sup> Margo Beasley, *Wharfies: A History of the Waterside Workers Federation*, Halstead Press, Sydney, 1997, p.131.

<sup>51</sup> S. J. Butlin & C.B. Schedvin, *The War Economy*, op.cit. p. 487. The authors have little doubt some decline in labour efficiency had occurred by the end of the war but concede these figures were subject to other influences.

<sup>52</sup> Australian Bureau of Statistics, *The Commonwealth Year Book 1951*, AGPS, Canberra, p. 145.

its programme for improved pay and conditions that caused port congestion and increased demand for labour to clear cargo backlogs.

The militancy of shipboard and waterfront unions took several forms that the MIC and SIC had little success in curbing. For instance, inter-union rivalry over demarcation issues, relativity of benefits or jealousy caused disputes perhaps less justifiable or understandable to the people they affected because they tended to be lengthy, and were virtually insoluble by the MIC, arbitration system or employers. Arguably the most image-damaging strikes for shipping were those of a political flavour, often with a foreign basis. At this time many of the officials of both the SUA and WWF were members of the Communist Party of Australia (CPA). Several instances occurred of both unions withholding labour from Australian and other ships in support of industrial action by other non-shipping unions whose leaders were of similar political persuasion.<sup>53</sup> Other examples of strikes over such ideological causes were bans imposed by the WWF and SUA on vessels carrying materials from or to what they regarded as oppressive regimes.<sup>54</sup> Strikes over political issues, however, had a different dimension to those over the industry's conditions of employment and in the then prevailing political climate these made the unions concerned unpopular with press, public and Government that over time lost patience with shipping's management as well as its unions.<sup>55</sup> One tactic frequently used by the SUA to delay vessels in pursuit of its objectives was to encourage its members to exercise their right to leave a ship for personal or health reasons. The union then pleaded inability to fill the vacancies due to manpower shortages, a tactic the MIC seemed unable to circumvent.<sup>56</sup>

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<sup>53</sup> Two examples are the SUA's support for the Federated Ironworkers' Association in its 1945 dispute with BHP, and the refusal of the SUA to man some colliers trading between Newcastle and Sydney during the 1949 strike of the Miners' Federation. Brian Fitzpatrick & Rowan Cahill, *The Seamen's Union of Australia*, op. cit. pp. 242, 243.

<sup>54</sup> Five Dutch ships marooned in Sydney from September 1945 by a WWF 'black ban' were released in January 1946. *The SMH* 15/1/46. Ships loading for India, Malaya and Greece also had delays.

<sup>55</sup> "The whirlwind of anti-communism that characterised post-war journalism in Australia bracketed (*sic*) the SUA as a 'communist controlled union.'" Brian Fitzpatrick & Rowan Cahill, *The Seamen's Union of Australia*, op. cit. p. 241.

<sup>56</sup> For example, the reports of the ASOF representative on the MIC meetings held on 21 November and 5 December of 1945. These are contained in ASOF Circulars F. 258 of 23/11/45 and F.263 of 6/12/45. E. 217/120, NGB. They refer to a total of 12 vessels delayed by crew shortages. Included were four BHP vessels, apparently delayed in sympathy with striking steel workers.

While the MIC and SIC remained interposed between them and their labour supplies, shipowners had few options for improving waterfront productivity or reducing strikes except by seeking the Government's intervention. The number, length and severity of costly disputes involving shipping during this period shows the SIC and MIC had minimal success in overcoming the problems associated with providing an uninterrupted supply of ships' crews and wharf labour. Shipping companies assumed requisition of their vessels, control of freight rates and other constraints would have a finite life unless the industry was nationalised. However, restrictions on access to their labour and to build new ships seemed intended to continue indefinitely.<sup>57</sup> The effects of the Government's presence, of these restrictions and of other forces that appeared between 1945 and 1949 on shipping companies' profits and operations are evident in the market for shipping services between these years.

### **The Effects of Government and Restrictions on Factor Supply**

Chapter Four argues for inclusion of Government and restrictions on supply of ships and labour as individual forces in shipping's explanatory framework because of their effects on industry profitability; the former because of its specificity, the latter as a particular example of the more general powers of suppliers discussed by Porter. Government transport policies favoured its own Line, air, road and rail transport, with financial assistance to the detriment of private shipping's competitiveness. The costs of essential factors were driven up and profits depressed by Government restrictions on supply of ships and labour, the effects of the latter exacerbated by militant unions' exercise of their monopolies of supply under the *Arbitration Act*. With the general strategies suggested by Porter as counters to suppliers' powers rendered unavailable to Australian shipowners by their industry's characteristics and the specificity to it of these forces, companies turned to other responses.<sup>58</sup>

The independent private companies clearly believed a return to marketing their services through the ASO would best assist them to resist these forces and regain their pre-war trades. So even before the war's end negotiations had begun to reconstitute the cartel and continued while the ships of their members were still requisitioned and

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<sup>57</sup> For instance, a 1945 report by Justice Foster of the Arbitration Court had recommended that the SIC continue to regulate the stevedoring industry in peacetime.

trading under the SCB's direction in rationalised services. This required the re-negotiation of a formal agreement and Adelaide, the largest and strongest among the ASO group, hesitated to recommit itself to the restrictions of a cartel that might have outlived its usefulness.<sup>59</sup>

Whilst it [Adelaide] might gain some small advantage [from independent operation] ... I think such a policy would ultimately prove disastrous as it may eventually lead to severe competition and then there would be a reluctance among the companies to cater for the less profitable trades. If such a position should arise... there is always the possibility that the Commonwealth Government might approach the State governments with a request that the latter assign to it the right of taking over the interstate shipping industry.<sup>60</sup>

If Adelaide's view was that of other ASO members, it seems their motivation for reconstituting the cartel was mainly self-preservation rather than commerce. Still, Adelaide's demur was overcome and in June 1946 a new ASO agreement with the same provisions as the former was concluded between the same companies that comprised its previous membership with the same shortcomings in practices and organisational structure as those of 1939.

Although the ships of both ASOF and ISOA remained requisitioned under the SCB's control until 1947 all were fully employed. In the ten years following 1946 the doubling of the National Income combined with over-full employment to produce a strong demand for consumer goods by a rapidly increasing population. This was accompanied by an equally strong market for all modes of distributive transport, including shipping.<sup>61</sup> For some industries that were substantial shippers of coastal cargoes, return to a level of peacetime production that would satisfy the market for their goods was delayed, and it was not until the late 1940's that this occurred and real

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<sup>58</sup> Porter proposes spreading of purchases, avoiding switching costs, promoting alternate supply and standardization, backward or tapering integration as appropriate strategies. None was available to the independent shipowners. Michael E. Porter, *Competitive Strategy*, op. cit. pp. 123-125.

<sup>59</sup> "Discussions [relating to the agreement's renewal] have been taking place for some time past between the Australian shipping interests that formerly constituted the Australian Steamship Owners in regard to the future of the industry when their vessels are released from requisition." Letter Mackay (MH) to Hotblack (AUSN) 7/7/45. ML MSS 4548 146/361.

<sup>60</sup> Letter Mackay, MH, Sydney, to Hotblack, AUSN, London, 9/10/45. ML. MSS 146/361. Adelaide was considering dividing up the ASO's trades between its members.

<sup>61</sup> "From December 1946-47 to December 1956 Australia's population increased by 26% ... some 45% of this increase was due to the net migrant increase of 853,866. In this period national income rose by 210% ... and national income per head of population by 146% ... ." Australian Industries Development Association *Development in Australia; Review for International Conference in San Francisco*, AIDC, Melbourne, 1957, p. 13.

growth in these cargoes ensued.<sup>62</sup> Meanwhile, other industries offered new opportunities for shipment of bulk and general cargoes. For instance between 1945 and 1956 the manufacture of Tasmanian newsprint and other paper products, principally for mainland consumption, increased respectively from 80,000 to 190,000 tons and from 200,000 to 400,000 tons. Tasmanian zinc shipments to the mainland experienced a corresponding increase.<sup>63</sup> Increased house and building construction from 1950 to 1956, due to deferred demand and immigration, accounted for substantial growth in shipments of South Australian gypsum to Sydney and Melbourne for plasterboard manufacture.

The ISOA's Patrick was fortunate because during wartime the SCB had directed its ships to maintaining the services between Melbourne, Sydney and Brisbane which was their main pre-war service.<sup>64</sup> The ASO timetabled trades had, however, been suspended and replaced by rationalised services in which its ships were mixed with those of other operators. The ASO companies had, therefore, lost contact with their shippers, a substantial number of which had transferred their cargoes to rail.<sup>65</sup> So it was important that the ASO resume its interstate general cargo services as soon as possible.<sup>66</sup> The task would obviously have been made easier if the ASO companies had had control of their ships, but they remained under Government requisition until October 1947 and perforce during this period maintained their trades under the direction of the Australian Shipping Board (ASB).<sup>67</sup> However, before its ships were derequisitioned, the ASOF persuaded the ASB to trial a resumption of the ASO's timetabled service between Adelaide and Brisbane for four months.<sup>68</sup> This first step towards returning to the services of 1939 commenced in mid-1947 and was unsuccessful because its timing coincided with a period of waterfront labour unrest

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<sup>62</sup> By mid-1946 goods such as pig iron, steel and zinc had hardly increased from pre-war levels and black coal production had only risen from 235,000 to 257,000 tons from 1938-39. Production of bricks was well below 1938-39 levels and that of other building materials static. *The SMH*, Survey, 8-9/11/46.

<sup>63</sup> Australian Industries Development Association, *Development in Australia*, AIDA, Melbourne, 1961 op. cit. p.30.

<sup>64</sup> N.L. McKellar, *Derby Round to Burketown*, op. cit. p. 476.

<sup>65</sup> General Letter 3/48, MH, Sydney, to AUSN, London, 25/3/48. ML. MSS 4548 151/361.

<sup>66</sup> The attraction of general cargo was its high freight rates and independence of a reliance on the few large charterers that controlled the bulk cargoes. For instance, the AUSN's freight schedules for general cargo ex Adelaide list over 12,000 items as well as rates negotiated direct with major shippers. Items not listed were measured and charged individually. Table of AUSN Freight Rates. ML MSS 4548 361/55, 56/361.

<sup>67</sup> After 1947 the functions of the SCB were assumed by the Australian Shipping Board.

<sup>68</sup> General Letter 4/47, MH, Sydney, to AUSN, London, 17/3/47. ML. MSS 4548 149/361.

that reduced stevedoring productivity to the extent that general cargo was accumulating on the wharves. Thus when the ships sailed on time to maintain schedule, more cargo of disappointed shippers was left behind on the wharf.<sup>69</sup> Because of the inability of the service to keep faith with its customers, it ceased after four months. However, the volume of cargo it had attracted showed that in spite of the past constraints of requisition, a strong demand existed for a regular general cargo service between these ports.<sup>70</sup>

Release of their ships from requisition was of prime importance to the independent owners because control over their movements would facilitate return to peacetime trading and show the Government did not intend to nationalise the industry. They therefore pressed frequently for derequisition from 1945 onwards, but received no definitive reply until October 1946 when, in response to their letter of August 1946 asking to “be placed in a position to resume their business operations as early as possible”, the Prime Minister responded:

This view is in accordance with that of the Government, which has already decided that ships privately owned but under requisition to the Government shall be returned to their owners as soon as conditions permit.<sup>71</sup>

This reply was reassuring because it supplied the strong indication the industry wanted that it would escape nationalisation, but it left unanswered two other matters of concern: when would derequisition occur and could freight rates be raised above the 1942 levels at which they were held? The ASOF prepared a case for itself, the ISOA and some of the minor owners for an increase in freight rates to coincide with the release of their vessels and submitted it to the SCB in May 1947. Shortly afterwards, following a meeting between the ASOF and the Prime Minister, it was announced that the ships would be derequisitioned as voyages were completed on and after 19 October 1947. With derequisition, removal of constraints on freight rates also began, with the SCB deciding to increase them substantially in agreement with the ASOF

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<sup>69</sup> In March 1947, when the service began, 39,800 tons of cargo had accumulated on Sydney wharves alone. General Letter 3/47, MH, Sydney, to AUSN, London, 5/3/47. ML.MSS 4548 149/361

<sup>70</sup> The service resumed in January 1948. General Letter 1/48, MH, Sydney, to AUSN, London, 29/1/48. Results were poor because costs rose faster than revenue and the freight increase that accompanied derequisition was soon eroded.

<sup>71</sup> Letter to Chairman of ASOF from Prime Minister, 3/10/46. E217/122 NGB.

submission.<sup>72</sup> Thereafter, from September 1947 until they were abolished in April 1949, controls on freight rates became a responsibility of state governments.

So, by 1947 the independent companies had recovered their ships and a large measure of direction of their affairs but several reasons inhibited their ability to exploit the strong demand for shipping services in a buoyant market. Firstly, the general decline in industry productivity that has been ascribed to the determination of the workforce to frustrate anything perceived as an attempt to return labour to the poor working conditions of 1939 also affected shipping.<sup>73</sup> It was noted by BHP's chairman, who thus explained his company's failure to reach production targets:

This untenable position is directly attributable to industrial instability within the coal industry itself and ... until this problem is solved ... the community will continue to suffer shortages of goods and services. ... Within the steel works itself we have not been free of labour troubles. You are aware of a complete cessation of steel production lasting over a period of nine weeks.<sup>74</sup>

This he partly attributed to the labour disruption and shortages that reduced the productivity of BHP's ships.<sup>75</sup>

The average time taken by our own steamers at present to complete a round trip outwards with products from Newcastle and returning with iron ore from Whyalla is approximately one-third longer than pre-war. The extra time is principally due to a shortage of wharf labour at the main ports. The shipping position has also been aggravated by strikes involving a loss of 17% of available ship's time.<sup>76</sup>

A letter to the Department of Shipping in 1947 seeking its help, shows the ships of the ASOF were similarly affected: " ... a much slower turn round of vessels than pre-war. Vessels spend 60% of their time in port and only 34% at sea with resultant serious effect on carrying capacity."<sup>77</sup>

The particular vulnerability of the shipping companies to labour disputes also prompted the following comment in May 1946 from Burns Philp's Chairman:

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<sup>72</sup> By mutual consent, the vessels were actually released earlier, on 30/9/47. However, some were retained; intrastate ships for two months, and some passenger ships for over two years. Memorandum to Minister for Shipping and Supply from Secretary to Cabinet, 3/7/47, Cabinet Agendum Item 1364. CRS A2700 NAA.

<sup>73</sup> Tom Sheridan, Labour v. Labor, in *Strikes: Studies in Twentieth Australian Social History*, John Iremonger (ed.), Angus and Robertson, Sydney, 1973, pp. 176-181.

<sup>74</sup> Address to shareholders 1946 Annual General Meeting. *The SMH* 31/8/46

<sup>75</sup> A ship's productivity can be viewed as the ton-miles of cargo it carries per annum multiplied by the freight rate per ton mile. Martin Stopford, *Maritime Economics*, Unwin Hyman, London, 1988, p.123. By this definition on-board or waterfront labour disputes that delay ships reduce their productivity.

<sup>76</sup> *The SMH*, 31/8/46

<sup>77</sup> Letter Chairman, ASOF, to Secretary, Department of Shipping and Supply. 9/1/47. E217/122 NGB.

The shipping outlook is particularly bad. High cost is all right in coastal trades but it is different when competing with the outside world where we have to try to work amicably with so many unions. A small difference of opinion with any one of between 15 and 20 may affect all our shipping. Fortunately we are merchants not shipowners.<sup>78</sup>

It was the responsibility of the MIC and SIC to prevent by recruitment and intervention the many delays to ships in this early post-war period caused by labour shortages and work-related disputation. One particularly intractable example was an inter-union dispute that detained a ship alongside from March to December 1947, defying attempts at resolution by the MIC and Arbitration Commission until Ministerial intervention eventually persuaded both unions to allow the ship to sail.<sup>79</sup> Then there was a continuing undercurrent of delays as unions pursued their demands for improvements in pay and conditions. For example, it was reported to the MIC meeting of 21 November 1945 that nine ships had been delayed, some for several days, some for indefinite periods, by crew shortages allegedly engineered by the SUA.<sup>80</sup> Another example of a more widespread strike occurred on the Sydney waterfront for nine days in October 1946, when members of the WWF struck; it was particularly severe in that it delayed 70 ships, the strike then spread to Melbourne, where another 37 were embroiled.<sup>81</sup> When both ports resumed, there was insufficient labour to work the backlog of vessels, adding further to port congestion.<sup>82</sup>

The zeal of seamen and waterside labour to strike might, perhaps, have been less if the cost imposed on shipping by their strikes had always led to a commensurate loss in earnings by their members. In the WWF's case a labour stoppage had the effect of delaying discharge of cargo on board, and it was usually impractical or costly to remove cargo already accumulated on the wharf for loading. Both tasks, therefore, remained to be completed after a strike ended, for which the WWF were often paid

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<sup>78</sup> Extract from Chairman's speech, 23/5/46, Burns Philp *Annual Report* for 1946. ML. MSS 4548 146/361.

<sup>79</sup> The delay to the *Corio* resulted from the dismissal by its Chief Engineer of a fireman (stoker) and escalated before resolution after a threat from all marine engineers to resign *en bloc*. Fortunately for the owner, Parker, the ship was still requisitioned by the Government during most of the delay. *The SMH*, 18/ 12/47.

<sup>80</sup> ASOF Circular F.258, 23/11/1945. NGB, E217/120.

<sup>81</sup> Its immediate cause was the MIC's suspension of 326 WWF members for refusing to work overtime duties which the WWF had restricted as part of its campaign for attendance money and paid leave. *Age* 17/10/46. However, the concession of these claims in December 1946 and January 1947 appeared to produce no discernible lessening in strike action.

penalty rates as shipowners tried to regain schedules. Seamen, who were engaged for a fixed term, naturally incurred no financial penalty because of waterfront strikes.

Again, the refusal of a ship-board union to sail resulted in a loss of pay to its members, sometimes only one man, while other crew remained on full pay. On the other hand, the disruption to the operations of ships by seagoing and waterfront unions inflicted real and heavy costs on the industry, damaged its reputation for reliability and impeded its return to normal trading.

The frustration of the shipowners at the MIC's and SIC's lack of success in reducing the chaos was summed up by AUSN's managing agent.

The MIC only succeeded in keeping the majority of interstate ships running by... appeasement to the militant seafaring unions, which is in line with the methods employed in dealing with other large employee organisations, particularly wharf labourers, coal miners and ironworkers.<sup>83</sup>

The Government showed no inclination to dismantle the Maritime Industry Commission and legislation passed in December 1947 created a new Stevedoring Industry Commission to regulate stevedoring labour.<sup>84</sup> Far from stabilising waterfront labour relations, however, an altercation among members of the new SIC prompted the Government to wind it up in 1949.<sup>85</sup> Its replacement later the same year by the Australian Stevedoring Industry Board (ASIB), with members appointed by the Government confirmed its intention of continuing the regulation of stevedoring.<sup>86</sup> As the WWF's walk-out from the SIC shows, the union did not willingly accept the constraints of Government regulation.

With the MIC and SIC unable to ensure their supply of labour, shipowners appealed frequently to the Government for assistance and for the abrogation of its agencies. As an account of a meeting with the Prime Minister shows, the Government was generally unresponsive to these approaches:

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<sup>82</sup> *The Age* 23/10/46. The Commonwealth Statistician lists man-days lost in shipping and waterfront combined during this period as 231,562 (1946), 215,691 (1947), 15,631 (1948) and 129,460 (1949). N.L. McKellar, *Derby Round to Burketown*, op. cit. p.534.

<sup>83</sup> Letter Rickards, MH, Sydney, to Campbell, AUSN, London, 12/7/48. ML. MS 4548, 149/36.

<sup>84</sup> Under *The Stevedoring Industry Act (1947)*. The new SIC comprised Government, WWF and employer representatives and held disciplinary and other powers formerly exercised by the Arbitration Court. N. L. McKellar, *Derby Round to Burketown*, op. cit. p. 531.

<sup>85</sup> The SIC expelled its WWF members for refusing to undertake they would not again support the union's members for striking in defiance of an SIC order. Beasley, Margot, *Wharfies*, Halstead Press, 1981, op. cit. p. 136.

<sup>86</sup> Under the *Stevedoring Industry Act (1949)*.

I said [to Mr. Chifley] that the present body [the SIC] had entirely outlived its usefulness. It was set up ... for the specific purpose, as a wartime measure to ensure the expeditious turn-round of ships, but that the body had become as far as the Waterside Workers Federation was concerned, one to which they looked for improvement in their conditions rather than for ... the objectives for which the body was set up.<sup>87</sup>

The Prime Minister's response indicates his own lack of sympathy and also of the Government's Parliamentary party with shipping's labour problems:

Even as you have disagreement among your Colleagues, so have I amongst the members of my own party...[concerning the industrial situation]... but I would not want any action taken which would create a nation-wide conflagration ...<sup>88</sup>

This attitude was confirmed when the ASOF's Chairman met the Prime Minister, seeking his assistance in persuading the WWF to work a third shift to clear cargo that had accumulated due to reduced stevedoring productivity and port disruption by the WWF. His reply, "You had better tell Mr Healy [WWF Secretary, who was present] that", again signalled his disinclination to help.<sup>89</sup> As Buchan and Cottle point out, Prime Minister Chifley had "an unchallenged dominance in the Labor Party and labour movement", but also declined to use it to end a boycott by the WWF on Dutch shipping during Indonesia's war of independence, although he had publicly expressed his support for the Netherlands.<sup>90</sup> The sentiments later expressed by Macdonald Hamilton to its AUSN principal probably summed up those of the majority of shipowners:

The Commonwealth Government is cutting a sorry figure all round as it has done absolutely nothing to curb industrial lawlessness apart from some half-hearted appeals from the Prime Minister to the unions for a better spirit in the industry and increased production.<sup>91</sup>

The Government might, therefore, have done more to reduce the labour disruptions that not only inflicted heavy costs on companies but also exacerbated the shortage of vessels predicted in 1945 that had, by 1947, emerged to prevent them meeting demand for shipping services.

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<sup>87</sup> Report of meeting with the Prime Minister by D.F. Middleton, 30/10/46 p. 2. E217/122. Middleton had come to enlist the Prime Minister's assistance in ending a serious waterfront dispute and was representing both the Overseas Representatives' Association (OSRA) and the ASOF.

<sup>88</sup> This was in response to Middleton's comment that the striking waterfront workers should not be employed, to which the Prime Minister replied, "The old policy-starve them out." Ibid. loc. cit.

<sup>89</sup> Minutes of Conference with Prime Minister, 8 July 1947 [undated]. NGB 213/127.

<sup>90</sup> Alistair Buchan & Drew Cottle, Scabs or Scapegoats? A reappraisal of the breaking of the boycott of Dutch shipping July 1946. *The Great Circle*, Vol. 22, No; 2, 2000,. p.53.

## *The Australian Shipping Industry*

Much has been said of the supposed shortage of shipping but there is more shipping now on the Australian coast than ever before. Ships, however, spend two-thirds of their time in port instead of one-third.<sup>92</sup>

Normally the shortage could have been satisfied by introducing more vessels. This was not an available option between 1945 and 1949 because the Government would not license imports and the domestic shipbuilding industry was fully occupied for several years ahead with the Government's building programme. According to Smith's chairman, by 1946 the costs of Australian-built ships already exceeded the delivered cost of an equivalent vessel built in Britain and were increasing rapidly due to inflation.<sup>93</sup> The construction of ships in Australia would, therefore, need to be subsidised to equate their prices with those that owners would pay elsewhere, although the Minister's letter of 30/05/46 had avoided mentioning subsidies<sup>94</sup> He had also given no indication of how the Government would allow shipowners to acquire new ships: via access to Australian shipyards or by selling them vessels from its own construction programme. With a shortage of ships and their fleets in a run-down condition, by mid 1947 it had become a matter of urgency for the independent owners to establish whether they would be allowed to build replacements and at what cost.<sup>95</sup> They therefore sought a meeting with the Prime Minister to express their concerns, after which he told them the Government would subsidise Australian-built ships up to 25% of the cost differential between them and UK- built equivalents.<sup>96</sup>

Notwithstanding reassurances by the Minister and Prime Minister, the difficulties of building vessels through the agency of the ASBB that had been

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<sup>91</sup> Letter Rickards, MH, Sydney, to Campbell, AUSN, London, 10/8/48. ML. MSS. 4548 150/361.

<sup>92</sup> Address by the Chairman, The Adelaide Steamship Company Limited, Annual General Meeting, 27 September 1948. p. 141, Z535, NGB.

<sup>93</sup> *The Age*, 1/6/47. Smith's chairman was comparing the cost of his last British-built ship with prices indicated for Australian-built equivalents.

<sup>94</sup> Information prepared for the conference with the Prime Minister compared the costs of a ship built overseas for \$0.8 million with an Australian-built vessel costing \$1.0million whose daily capital charge would be 25% higher than its foreign built equivalent. This added cost would seriously undermine shipping's competitive position with respect to its substitutes. Preparatory Memorandum for conference with Prime Minister, 16/5/47. E217/123 NGB.

<sup>95</sup> In the absence of any declared Government ship replacement policy, the ASOF companies sold eight of their older ships that would have required expensive refurbishment to foreign interests in July 1947. To the concerns expressed by maritime unions at the loss of their members' employment, the Director of Shipping pointed out that Government ships recently completed provided more jobs than had been lost. General Letter 6/46, MH, Sydney, to AUSN, London, 25/7/46. ML.MSS 4548 149/361.

<sup>96</sup> Report of Meeting with the Prime Minister in Canberra on 22/5/47, ASOF. Circular F.152, 19/6/47. E.217/123 NGB.

restructured post-war to administer the practical aspects of the Government's policy soon emerged. At the first meeting of the ASBB on which the shipowners were represented the Minister gave them further clarification of the Government's shipbuilding policy and some reassurance. This was the Government's determination to place shipbuilding in Australia on a permanent basis, and that the shipping companies were expected to purchase the products of the domestic shipyards. Then, "the Minister stressed the importance of the Board ensuring that the type of vessels to be built will be acceptable to the Australian shipowners and that due regard will be paid to capital and operating costs."<sup>97</sup>

Now partially informed of the Government's policy, several companies made known their interest in buying 'B' class freighters, the ASBB design most suitable for their general cargo trades. In mid-1948 the Government decided to offer shipowners the opportunity to buy several for \$0.975 million each.<sup>98</sup> However, while the ASOF was deciding whether to bid for four of these ships, the Prime Minister stated that he thought the Government should retain them for itself, but, if they were to be sold, the price should be the average cost of the whole class of \$1.07 millions.<sup>99</sup> These ships from the Government's construction programme were more modern and efficient than those of the shipping companies, but the offer created a dilemma for them. To buy the ships at the price asked by the Government would place them at a cost disadvantage with respect to competition from land transport. If they did not buy them it was likely they would be surplus to the Government's needs and used to compete with the private sector's obsolete vessels in its general cargo trades. In 1948 the difficulties of doing business with the Government worsened when it suspended the sale of all vessels while its *Shipping Act* was introduced.<sup>100</sup> However, before sales ceased, two

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<sup>97</sup> ASOF Circular 93, 19/4/47. The ASBB had been reconstituted under the provisions of the Defence (Transitional Provisions) Act 1946 from its wartime footing.

<sup>98</sup> The 'B' class were freighters of 6,500 deadweight tons, most of which were coal burners instead of the more economical diesel powered vessels offered by the overseas yards for which Australia did not yet possess construction facilities. ASOF Circular 93 19/4/47. E217/122 NGB.

<sup>99</sup> Rickards, MH, Sydney, to Campbell, AUSN, London, 6/5/48. ML MSS 4548, 150/361. The AUSN was negotiating for a "B" class ship, and if the Government allowed the ships to be sold the effect of the Prime Minister's statement would be to increase the ships' cost from the figure being discussed of \$0.9 millions to \$1.2 millions. Ibid

<sup>100</sup> N.L. McKellar, *From Derby round to Burketown*, op. cit. p.527.

companies decided the penalty for not meeting the Government's terms outweighed the costs of compliance, and each acquired one 'B' class for \$1.067 millions.<sup>101</sup>

Besides restrictions on shipbuilding and labour, the independent owners faced a number of restrictions and concerns that created pressure on long-term profitability and threatened the industry's viability. As early as 1945 shipowners had made well-substantiated claims they would have difficulties in replacing their ageing and obsolete vessels because the wartime charter rates paid by the Government had been inadequate for accumulation of the necessary capital.<sup>102</sup> The rates remained in force until the derequisition of the independent owners' ships in 1947 that was accompanied by permission for a rise in freight rates.<sup>103</sup> This, however, did not solve the problem of fund accumulation because freight rates remained controlled, firstly by the Government and then by its state counterparts, until 1949 during which time the value for fleet replacement of the first and subsequent increases was eroded by rapidly rising overseas and Australian construction costs and seamen's remuneration.<sup>104</sup> Meanwhile as the Government fleet grew and entered more trades, concerns that it could undercut the private owners' freight rates effectively restrained unilateral increases by them. The practice thus developed of waiting for the Government's infrequent and usually tardy decision to raise its own rates before the shipping companies followed suite.<sup>105</sup> Two items of taxation legislation compounded the shipowners' problems of fund

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<sup>101</sup> The ships were acquired by McIlwraith and Smith. *ibid.* p.526.

<sup>102</sup> One of the many references supporting this are the remarks of M.G. Anderson, Chairman of Adelaide Steam, at its 1942 Annual General Meeting: "The charter rates we are receiving from the Australian Government do not enable us to set aside sufficient provision for the replacement of our old tonnage or tonnage that might be lost through accident or war operations." Chairman's Address to Annual General Meeting of The Adelaide Steamship Company Limited. 18 September 1942.

<sup>103</sup> The importance to the private companies of the terms of the Government's time charters of their ships during the Second World War requires that they be stated. As usual in such an arrangement, the owner received a fixed sum in advance for each day of the ship's availability to cover all costs except bunkers and war risk insurance. Minutes of Cabinet meeting 7/8/41, Agenda Item 710. NAA CRS 2697. The charter rates comprised 9% of the Government's valuation of each ship (5% depreciation and 4% return on capital) plus an allowance to cover crew costs and insurance (except war risks that were borne by the Government) as at the date the charter commenced. S. J. Butlin, and C.B. Schedvin, *The War Economy 1942-1945*, *op. cit.* p. 479. The depreciation implied an asset life of twenty years, hardly generous considering the low valuations placed on most ships, and the return on capital was 1% above the then rate for Government securities. The vessels' management remained under control of their owners, for which they received compensation of 6% of the freight earned. Memorandum to Cabinet from Chairman, SCB, 6/8/41. War Cabinet Agenda Item 710, meeting of 7/8/41. CRS A2697 NAA.

<sup>104</sup> "Federal Cabinet is appalled at the high cost of building ships in Australia, the Prime Minister Mr, Chifley said today." *The Daily Telegraph* 1/1/46.

<sup>105</sup> The Government fleet lost \$8.53 and \$9.094 millions in 1946/47 and 1947/48 respectively. Thus in mid-1949 the Government raised freight rates allowing the private owners to do likewise. N.L. McKellar, *From Derby Round to Burketown*, *op. cit.* p. 518.

accumulation. Money received from insurers in respect of war losses or damage was taxed as profit, and cash reserves earmarked to replace vessels were also taxed if these exceeded the sum allowed for their depreciation.<sup>106</sup>

Apart from the two ships bought from the Government by Smith and McIlwraith in 1948 the only ships added to the independent private fleet between 1945 and 1949 were one built overseas for AUSN and a second-hand ship imported by McIlwraith, both with permits issued before importation was prohibited. In 1949 the effect on private shipowners of the Government's shipbuilding policy and the Prime Minister's intention of selling B Class vessels at the average building cost of the whole class was thus described:

The whole position as you see is unsatisfactory - on the one hand we are precluded from building overseas, and if the Prime Minister's reported latest view is correct, we are to be denied the opportunity of purchasing locally built vessels at a reasonable price.<sup>107</sup>

By then it was also clear that the rate at which shipbuilding costs were inflating was such that the Government's 25% subsidy to the shipyards was insufficient to equalise Australian and foreign building costs. The shipowners responded by seeking a meeting with the Minister. At the meeting they submitted building quotations from three British yards, whose prices were between 20% and 25% lower than Australian shipyards for equivalent vessels, even after application of the Government's 25% subsidy.<sup>108</sup> Consequently the shipowners, not unreasonably, claimed an increase in the Australian subsidy. The claim was later declined in a ministerial letter, and the subsidy remained unaltered during the Government's remaining life.<sup>109</sup>

The options open to the independent shipowners most likely to yield some relief from the constraints on fleet replacement were to appeal to the Government for relaxation of its shipbuilding policy and to the Federal Opposition to reinforce these appeals. Approaches to the Government failed to win any concessions and although their problems were the subject of several Parliamentary questions, by mid-1949 these

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<sup>106</sup> The shipowners wrote to the Prime Minister and Federal Treasurer and met with the Commonwealth Committee on Taxation over several years to obtain legislative amendments. Letter from Wilson, Danby and Giddy, chartered accountants, to Deputy Chairman, ASOF, 19/5/53. E217/133 NGB. "Report on Meeting with Commonwealth Committee on Taxation", 18/8/53. E217/135. NGB.

<sup>107</sup> Letter Rickards, MH, Sydney, to Campbell, AUSN, London, 6/5/48. ML. MSS 4548 150/361 .

<sup>108</sup> Letter from Chairman, ASOF, to Minister for Supply, 24/3/49. E.217/181. NGB. The British delivery time was also much earlier and the contracts tighter in terms of the builder's responsibility for cost increases than the Australian terms.

had also proved unsuccessful.<sup>110</sup> In desperation the independent companies then considered ignoring the policy's increasing constraints and contracting directly with the UK shipyards to build ships for the coastal trade.<sup>111</sup> This was opposed by their legal advisers and their predicament regarding fleet renewal remained unaltered for the Government's remaining term. The Government's policies between 1945 and 1949 therefore disadvantaged the Australian independent companies who were restricted to building four new ships while construction of a large modern government fleet proceeded unimpeded and private investment stagnated.

The shipping industry to which the private owners returned in 1945 was very different to that of 1939. They were no longer the sole suppliers of Australian shipping services but now had to adjust to a substantial Government shipping presence comprising three elements. These were, firstly, the Australian-owned ships that the Government had requisitioned early in the war. To these were added the foreign-owned and foreign-crewed vessels the Government had chartered-in to supplement the domestic fleet, and, finally, twelve Australian-built ships that were part of its substantial shipbuilding programme, in 1945 still several years from completion. From the time of their requisition the Australian vessels chartered by the Government always operated unprofitably, mainly because the Government did not raise freight rates after 1942. The losses were, however, offset by the profits of the foreign vessels under Government charter and of its own vessels, so that by 1947 the fleet had accumulated a surplus of \$10.88 millions. That year the Government's fleet of domestically built and chartered foreign vessels incurred its first loss of \$3.7 millions, the causes of which the Commonwealth Auditor General identified as:

...turn-round of vessels; restiveness and disputes in the industry; shortage of labour; increased operating costs as against stabilised [i.e. controlled] freight rates [and] ...

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<sup>109</sup> Letter from Minister for Shipping and Development to Chairman, ASOF, 20/6/49. E217/127 NGB.

<sup>110</sup> Parliamentary Question No. 12 of 2/3/49 in the House of Representatives sought information on the costs of the Government's shipbuilding programme and its success in selling ships to the private sector. E217/126 NGB. Question 25 of 20/9/49 probed the operations of the ASBB and the Government's construction programme. E217/127 NGB.

<sup>111</sup> "If ships were purchased ... the Minister might well consider it against the public interest to grant a licence ... and refuse a licence accordingly. ... both they[counsel] and ourselves consider it would be risky to ... enter into commitments ... before a ruling is obtained from the High Court." Letter from Malleson Stewart, Solicitors, to Deputy Chairman, ASOF, 12 July 1949.

the general unsuitability of the tonnage chartered for Australian coastal conditions.  
<sup>112</sup>

Excluding the suitability of the vessels the Government had chartered, the principal challenges to the operation of its ships were, therefore, two that also affected the private sector: delays to vessels, and freight rates set too low to recoup costs in an inflationary environment. The Auditor General's view was that, because of their magnitude, the losses should be investigated.<sup>113</sup> It was within the powers of the Government to improve the profitability of its shipping arm, for example by chartering more suitable vessels and being more pro-active in labour relations. The Government did not act on the Auditor General's recommendation and its losses continued.

With a further loss of \$4.80 millions in 1949, these cumulatively exceeded the surplus in hand by \$3.03 millions, prompting the Auditor General to repeat his request for an investigation. He added to his previous list two further causes for the loss, "... the need to maintain unprofitable voyages in the Commonwealth interest ... and excessive charges for depreciation and interest based on the high values of the Commonwealth built vessels."<sup>114</sup>

By 1947 the unprofitable Australian chartered vessels had been derequisitioned and returned to their owners and by 1949 the foreign flag chartered fleet had declined from nineteen to eight as the Government built more ships. Thus the loss could not be attributed to these former segments of the Government's shipping operations. Instead, the Auditor General identified 76% of the loss as deficits on voyages of the Commonwealth built vessels that by 1949 totalled 29, all designed by the ASBB presumably to suit the coastal trades.<sup>115</sup>

The losses incurred by the Government's shipping operations were public knowledge and its unresponsiveness to the conditions creating them did not foretell a comfortable relationship with the private companies. For instance, if the losses of the Government's shipping fleet resulted from its increasing content of expensive Australian-built vessels, this demonstrated its shipbuilding policy was not commercially viable for itself and therefore would not be for the private companies.

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<sup>112</sup> Australia, Parliament 1951-1952, *Report of the Auditor General 1947-48*, Parl. Papers General and Finance, Volume V, para. 150.

<sup>113</sup> *Ibid.* loc. cit.

<sup>114</sup> Australia, Parliament Finance Session 1950-51, *Report of the Auditor General to June 1950*, Parl. Papers, para. 143

Again, the Government neither addressed the industrial disruption nor increased its freight rates. These were both causes identified by the Auditor-general as contributing to the ASB's losses and both affected the trading of private companies' ships as much as the Government's. The Government's participation in shipping and its relationship with the interstate companies evoked some unflattering assessments. For instance,

Australian coastal shipping is in a chaotic state. Heavy losses are being incurred by the Government in its interstate operations where private owners have been supplanted in spite of the big trade available. Having got the industry into this condition the Government will later hand the ships back to the owners who will be expected to carry the baby born of war-time nationalisation of the industry.<sup>116</sup>

The ASB's owned and chartered fleets were unprofitable in all the years between 1946 and 1950 except one. All shipowners benefited from the freight rises to which the ASB agreed in 1949, although the Government fleet lost another \$1.47 millions in 1950.<sup>117</sup> Thereafter it remained profitable until October 1956, when it became the ANL.<sup>118</sup> In his annual report of 1951 the Auditor-General reminded Parliament that his office's recommendation to investigate the ASB's losses of 1949 and 1950 had not been carried out. Available evidence shows that the profitability of the ASO independent private companies had also been disappointing in these early post-war years.

### **Summary of Effects on Profitability**

In the first five years after the war, Government policy and restrictions on the supply of new ships and access to labour inhibited shipowners from making decisions essential for the early return of their businesses to profitable peacetime trading. These years were 'lost' years, reflecting a period of industry stagnation. Profits were affected, although it is difficult to determine to what extent this was so in the short term.

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<sup>115</sup> Ibid.

<sup>116</sup> Extract from *The Wildcat Newsletter*, a monthly publication attached to General Letter 3/46, MH, Sydney, to AUSN, London, 3/4/46. ML. MSS 4548 149/361.

<sup>117</sup> "Troubled with rising costs, the independent companies suggested a freight rate increase of \$1.0 per ton to the ASB. To the amazement of the private owners, the requested rise of \$1.0 per ton became an approved rise of \$1.5 per ton in respect of general cargo between the principal mainland ports ... from 14 June 1949." N.L. McKellar, *Derby Round to Burketown*, op. cit. p. 519.

<sup>118</sup> Thereafter the Government's shipping operations recorded a loss of \$1.04 millions in 1951, profits of \$0.817, \$ 0.551, \$0.987, \$0.741 millions in 1952, 1953, 1954 and 1955 respectively before incurring a further loss of \$0.634 millions in 1956, before the establishment of the ANL. Australia, Parliament, General and Finance Sessions *Report of Auditor General to Parliament*. General and Finance Sessions, 1951-52, Volume V, pp.26-28, Session 53-54, Volume VI, p.30, Session 1954-55, Volume V, p.34, Session 1956-57, Volume II, pp. 33,34.

Table 5.1

Net Profits and Dividends of Australian ASOF Companies, 1945-1950 (\$s)

	Adelaide	Smith	Parker	M'raith	MelbourneC
Yr.Ending	N.Prof/ Div %	N.Prof/ Div %	N.Prof/ Div %	N.Prof/ Div %	N.Prof/ Div %
31.12.45		169,716/4.5	369,802/12.0		
30.06.46	278,998/6.0			140,274/5.0	52,290/7.0
31.12.46		285,544/4.5	277,144/12.0		
30.06.47	338,912/6.0			186,518/5.0	48,342/7.0
31.12.47		296,428/4.5	243,228/12.0		
30.06.48	308,902/5.0			190,938/5.0	54,706/7.0
31.12.48		212,262/5.0	280,630/12.0		
30.06.49	232,662			213,330/5.0	55,502/7.5
31.12.49		325,238/5.0	335,266/11.0		
30.06.50	232,552/5.0			180,652/5.0	58,568/7.5

Sources: Huddart Parker, Group File I/11 and Melbourne Files 5/9-10, 5/11-13, M.U Archives Other companies, financial pages of *The Age* and *The Sydney Morning Herald* for relevant years.

Because their ships remained chartered to the Government prior to derequisition in 1947, the consequences of delays waiting for announcements of shipping policy and the restriction of factor supply were in the nature of opportunities lost with future rather than immediate effects on profitability. After derequisition, however, all costs accrued to the shipowners and must have diminished profits notwithstanding that Table 5.1 shows that all Australian listed ASOF companies were profitable and paid regular dividends between 1945 and 1950. Yet all companies had interests other than their shipping, the profitability of which is not distinguished in their annual reports. Addresses to Annual General Meetings, such as that by Adelaide's Chairman in 1948, therefore provide a better indication than published company of accounts of shipping profits.

## *The Australian Shipping Industry*

I have mentioned on many occasions previously that your dividends come largely from your ancillary interests and we hope the time will come soon when ships themselves can be made to pay their way and leave a margin.<sup>119</sup>

He returned to the same subject in following year with, "The ships themselves have not made profits."<sup>120</sup> The Chairman of Huddart Parker spoke in the same vein:

In the most discouraging year since 1930/31 shipping activities were conducted at a loss of \$50,208. ... income from general investments was larger and the overall result showed a net improvement.<sup>121</sup>

There is no doubt that between 1945 and 1949 shipowners felt besieged by Government policy and associated restrictions on supply of ships and labour that they regarded as the main reasons for poor profitability by their companies and the industry. For instance,

In Australia ... the freedom of the individual is being sacrificed by the ever increasing control by Governments. ... it is to be hoped that ... The Shipping Act of 1949 will not be applied in such a way as to strangle private enterprise and reduce individual effort.<sup>122</sup>

Again,

There was also to be considered the [policy of] preservation of the Australian shipbuilding industry which can only cope with a portion of the new vessels required on the coast, and owing to local conditions the cost is much greater than if the vessels were ordered from the United Kingdom. ... We hope the Commonwealth Government will permit further ships to be imported and will also arrange that the disparity in costs is in some manner regulated so that the Australian built ships will not be at a disadvantage.<sup>123</sup>

Regarding the presence of the SIC and MIC in the labour supply chain:

As I see it, however, this [improved outlook] can only take place when a fair day's work is given for a fair day's pay. ... we are certain no peaceful and contented work can be attained if any authority ... be established to interpose between the employee and his employer.<sup>124</sup>

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<sup>119</sup> Address by Chairman, The Adelaide Steamship Company Limited, Annual General Meeting, 27 September 1948, p. 141. Z535 NGB

<sup>120</sup> Address by Chairman, The Adelaide Steamship Company Limited, Annual General Meeting, 3 October 1949, p. 147, Z535 NGB.

<sup>121</sup> Address by Chairman, Huddart Parker Limited, Annual General Meeting, 25 March 1949. Huddart Parker Records, G.P.1 Box 11, University of Melbourne Archives.

<sup>122</sup> Address by Chairman, The Adelaide Steamship Company Limited. Annual General Meeting, 3 October 1949, p. 147, Z535, NGB.

<sup>123</sup> Address by Chairman, Huddart Parker Limited, Annual General Meeting, 30 March 1950. G.P. 1 Box 11, University of Melbourne Archives.

<sup>124</sup> Address by Chairman, The Adelaide Steamship Company Limited, Annual General Meeting, 16 September 1946, p. 135. Z535, NGB.

From the end of the war until 1949, and even after their ships were derequisitioned in 1947, the independent companies were unable to take full advantage of a buoyant shipping market because of Government policies and restrictions on the supply of their ships and labour. They therefore had to re-establish their pre-war trades using their existing vessels.<sup>125</sup> In January 1948, the ASO responded to the demand earlier identified for restoration of its timetabled Brisbane–Adelaide service; by September of that year it had resumed its main scheduled general cargo service between Fremantle and Sydney via Adelaide and Melbourne;<sup>126</sup> by the end of 1948 the seven most important ASO trades were operating, as were those of Burke and Patrick. As the decade closed there was an abundance of general cargo generated by residual consumer wartime demand and by population growth.<sup>127</sup> By mid-1949 the ASOF's response to the challenges of its commercial environment with its old ships appeared to be succeeding as well as could be expected, indicating that the Prime Minister's view of there being enough work for both Government and private shipping might be validated. Macdonald Hamilton's senior partner wrote to his principal:

...we have now got to the stage where freight rates can be adjusted comparatively quickly to meet operating costs. Provided labour conditions show some improvement, or even remain relatively stable, I think the 1949 results should be better than those for 1948.<sup>128</sup>

However, Table 5.2 shows that the volume of general cargo passing through Sydney, the busiest port for coastal cargo of that type, had never returned to its 1939 level indicating that another force had emerged likely to affect all shipping in the interstate and intrastate trades.

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<sup>125</sup> "We should aim to gradually regain the grip we had on the coastal shipping before the war with the ultimate objective of private enterprise assuming the responsibility for servicing the whole Australian coastline." Letter Rickards, MH, Sydney, to Campbell, AUSN, London, 20/1/50. ML. MSS 4548 152/361.

<sup>126</sup> General Letter 9/48, MH, Sydney, to AUSN, London, 20/9/48. ML. MSS 4548.

<sup>127</sup> The principal ASO trades were the Melbourne/Sydney/Newcastle, Melbourne/Adelaide, Melbourne/Adelaide/Fremantle, Adelaide/Sydney/Brisbane, Sydney/Brisbane/Rockhampton, Melbourne/Brisbane/north Queensland ports and Melbourne/northwest Tasmanian ports/Adelaide. E127/122 NGB. Patrick and Burke respectively operated separate individual services from Brisbane via Sydney to Melbourne and from north Queensland/Brisbane to Sydney.

**Table 5.2**

**Interstate Cargo Loaded and Discharged in Sydney in Tons**

<b>Yr end 30 June</b>	<b>Tons Weight (Bulk)</b>	<b>Tons Measurement (General)</b>
1939	727,204 (100%)	1,312,593 (100%)
1946	863,459 (119%)	755,354 (58%)
1947	930,504 (128%)	595,265 (45%)
1948	799,883.(110%)	715,012 (54%)
1949	826,423 (114%)	687,594 (52%)
1950	737,593(101%)	582,552 (44%)

Source: *New South Wales Year Book*, 1953

From 1947 general and the lesser paying bulk cargoes had declined below their post-war maxima. This was due to the transfer of shipping's general cargoes to land transport, especially road, by shippers attracted by its lower freight rates and greater reliability compared with the charges and unpredictability of shipping due to port congestion and industrial disputation. The independent owners had been aware of this trend since at least 1946, but seemed inclined to treat the development lightly.

There have been some substantial consignments of goods made by road services between Sydney and Melbourne in recent months as railways and shipping have been unable to cope with the situation. ... which is not likely to be a serious competitive factor when normal conditions return.<sup>129</sup>

However, the trend to shipping's land transport substitutes soon developed into a competitive force that made deep inroads into the general cargo trades of Government and private shipping alike during the years immediately following. In spite of these signs, the mood of the independent companies had turned from pessimism to optimism with the election of a Liberal Government at the end of 1949,

<sup>128</sup> Letter Rickards, MH, Sydney, to Campbell, AUSN, London, 7/5/49. ML. MSS 4548 149/361.

<sup>129</sup> General Letter 11/46, MH, Sydney, to AUSN, London, 24/12/46. ML MSS 4548 149/361. The letter compares the freight rate of \$20 per ton charged by road with that of \$6 per ton plus cartage, insurance and other costs charged by shipping that in total "are still far short of the cost by road."

even though between 1945 and 1949 they had failed to benefit from a strong market for shipping services and, while private investment stagnated, Government investment and its fleet grew rapidly.

### **Conclusion**

Developments in Australian shipping between 1945 and 1949 were characterised by the interaction of two fundamentally different influences, the aspirations of a socialist Government and those of independent shipping's conservative management. Although not in open conflict, it is evident there was little empathy between the former and the principal shipowners' main representative, the ASO cartel. In such a contest it is obvious the Government's policies would prevail. The ASO's response to its challenges focused on seeking relaxation of Government restrictions on the supply of ships and help with its labour problems. However the ASO's acceptance that it was unlikely these restrictions would soon be lifted, and that its quasi-monopoly of interstate cargo trades would not quickly be restored might have helped it to adjust to post-war circumstances.

For instance, a first-hand attempt to solve its own problems might have been more successful than appeals to Government and won more of its help. But the ASO's stance indicates it had not realised its pre-war environment had permanently changed because it made little effort to come to terms with its new circumstances, especially increased interest in shipping by a Government that was now an industry participant. Although the Government controlled the supply of vessels the pro-active presentation of a plan to modernise business practices, introduce technology and provide services to ports inadequately covered might have yielded release of the marine plant needed to implement it. ASO's complaints about its circumstances persisted and its response was to wait for the Government to change while its own fleet and competitiveness stagnated. The ASO's conservatism and aspirations of a return to its quasi-monopoly of interstate shipping as of right was as much responsible for the delays it incurred in returning to peacetime trading as the Government's restrictions and unsympathetic stance.

## CHAPTER SIX

### 1950-1964: OPTIMISM AND DECLINE

This period opened optimistically for the private companies when the newly elected Government offered to sell them its fleet. For the next six years the parties were pre-occupied in negotiations that ended unsuccessfully, dissipating earlier optimism as the fleet was transformed into the Australian National Line (ANL) in competition with the independent owners. This reintroduced a long-absent rivalry to the industry that combined with increasingly strong competition from air, road and rail transport to win most of the passenger and general cargo trades of the independent companies whose businesses declined. The collapse of the ASO cartel in 1964 after long unprofitability hastened the decline and confirmed the ANL as the dominant force in Australian shipping. The emergence firstly of technological advances and later of a new class of users completed the range of the competitive forces that, this thesis argues, contributed with differing degrees of intensity throughout the post-war period to shipping's decline by undermining its profitability.

In 1950 optimism at the opportunities Australia's post-war development would generate for the shipping industry was well expressed in an executive's letter:

At the present time [1950] Australia is on the crest of a wave of prosperity never before experienced. Migrants are pouring into Australia at a rate of two hundred thousand per annum, large developmental schemes are in progress and planned which will enormously add to the productive capacity of primary and secondary industries in which all states will share, and with the change in character of the Federal government after the election [in 1949] the political and industrial outlook has greatly improved.<sup>1</sup>

As he noted, one reason for optimism was the election of the Liberal/Country Party Government. In terms of shipping's explanatory model, it was hoped the new Government's election platform of support for private industry signified policies would be more sympathetic, less operationally restrictive and, therefore, more commercially benevolent under Prime Minister R.G. Menzies, K.C., than under his predecessors.<sup>2</sup> It soon appeared that this optimism was justified, because, on 20 December 1949, two days after the Government was sworn in, the ASOF's representatives were summoned to Canberra. There they learnt from the Minister for

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<sup>1</sup>Letter Rickards, MH, Sydney, to Hotblack, AUSN, London, 3/4/50. ML. MSS 4548 152/361.

<sup>2</sup>Menzies had sometimes acted professionally for the ASOF in his capacity as a Melbourne barrister. An example is the opinion he provided on 26/12/45 regarding proposed changes to stevedoring legislation. ASOF Circular F. 271, 28/12/45. E217/122 NGB.

Shipping and Transport, Senator McLeay, of a Government offer that *prima facie* appeared would end their fears of competition from its fleet. This, however, ended by introducing industry rivalry as a competitive force that displaced them as the most important operators of shipping.

### **The Proposed Sale of the Government's Fleet and Creation of the ANL**

The threat of entry post-war had been weak, except for that from the Government's fleet. Lacking the features of Porter's paradigm, this threat is better accounted for in an analysis of Government policy than as a separate force in the explanatory framework developed in Chapter Four.<sup>3</sup>

The kernel of the ASOF's meeting with the Minister was his statement that the Government wished to exit shipping quickly and would welcome their offer to buy its fleet *en bloc*.<sup>4</sup> He also said the Government would relax its restrictions on the importation of ships, and would be less interventionist and more supportive of them than its predecessor.<sup>5</sup> Of several possible reasons for the Government's approach, the most likely was its policy of supporting private enterprise. It might also have wished to escape both the risk of opprobrium if financial losses like those leading to the sale of the Commonwealth Line in 1929 later forced the sale of the ships, and to avoid the cost of funding the Government's five-year ship construction programme of some thirty more vessels. The Minister's approach presented the private shipping sector with its most outstanding opportunity for expansion since the end of the Second World War, perhaps in its history, yet outwardly the ASOF group acted on it with less than celerity.

We informed him that we did not consider we could do this in a precipitate manner, and that he would be better to allow matters to develop further during the next few months, which would also give us time to get our ideas into line and ... tender him

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<sup>3</sup> "The threat of entry into an industry depends on the barriers to entry that are present, coupled with the reaction from existing competitors that the entrant can expect." The major barriers to entry of economies of scale, product differentiation, capital requirements, Government policy and others discussed by Porter were clearly not applicable to the Government fleet and reaction from existing players no deterrent. Michael E. Porter, *Competitive Strategy*, op. cit. pp. 7-13.

<sup>4</sup> "Senator Macleay [Minister for Shipping and Transport] also stated "... that the Government has decided that the private companies could charter 50% of the extra tonnage required for the coast. That as regards their own fleets ... if any saw favourable opportunities of purchasing ready ships abroad ... their proposals ... would be sympathetically considered. I feel sure you will regard all this as eminently satisfactory." Letter Rickards, MH, Sydney, to Campbell, AUSN, London, 18/1/50. ML. MSS 4548, 152/361.

<sup>5</sup> Letter Rickards, MH, Sydney, to Campbell, AUSN, London, 21/12/49. ML. MSS 4548, 152/361.

well considered advice ... as we had to think of the entire interstate trade which was growing in magnitude all the time.<sup>6</sup>

It is difficult to understand this lack of urgency on the shipowners' part, given their objective of regaining their 1939 domination of the coastal trades.<sup>7</sup> Three months elapsed before an ASO committee was appointed to negotiate the purchase of the Government's fleet, a potential competitor powerful enough to frustrate the shipowners attaining their objective.<sup>8</sup> This sluggishness became a feature of the shipowners' negotiations during the five years they continued, perhaps because they were confident that the Government needed their assistance and might reduce the price of the fleet if they delayed their responses.<sup>9</sup>

The following twelve months of negotiations established the respective positions of the two parties. If the Government was to quit shipping, it needed an arm's-length transaction to sell the ships, either at market prices established by independent valuation, or at least at the prices which appeared in the Treasury's books, in order to rebut criticism from the parliamentary Opposition.<sup>10</sup> The Government also required guarantees that, during the existing world shipping shortage, current and foreseeable domestic shipping requirements would be met at fair freight rates.<sup>11</sup> Like its predecessor, the Coalition also wanted assurances that enough new ships would be built in Australia to sustain a viable shipbuilding industry.<sup>12</sup> The ASO's objective was to eliminate a powerful competitor at as little cost as possible, but it believed it should not have to pay world prices for the Government's fleet, because the policies of the previous Government had prevented them from building ships abroad before prices escalated.<sup>13</sup>

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<sup>6</sup> *Ibid.*

<sup>7</sup> "We should aim to gradually regain the grip we had on the coastal shipping before the war with the ultimate objective of private enterprise assuming the responsibility for servicing the whole coastline." Letter Rickards, MH, Sydney, to Campbell, AUSN, London, 20/1/50. ML. MSS 4548, 152/361.

<sup>8</sup> *Ibid.*. ML MSS 4548 152/361.

<sup>9</sup> If the shipowners were aware of a precedent explained in a Memorandum to Cabinet (unnumbered) of 12/12/50, they perhaps hoped that they would be given the ships if they waited long enough. In the Memorandum the Minister for Shipping expresses the view that because the Government ships were built expensively during wartime, and were not ideal for commercial use, they were overvalued by approximately 50% in the Treasury's books. He wondered if they should be treated as other wartime equipment and written off now that their task was finished. File 58/267, MP 1276/3/4 NAA.

<sup>10</sup> At his meeting with shipowners on 18/12/50 Menzies stated he would not accept 'bucket prices'. Letter Rickards, MH, Sydney, to Bourne, AUSN, London, 20/12/50. ML. MSS 4548, 152/361.

<sup>11</sup> *Ibid.*

<sup>12</sup> "The Government affirms the need for the maintenance in Australia of an efficient shipbuilding industry." Submission SSB 51/1 to Cabinet by Menzies on 15/10/51. A4933, Vol 29, NAA.

<sup>13</sup> Letter Rickards, MH, Sydney, to Campbell, AUSN, London, 15/6/51, reporting on an ASO meeting. ML. MSS 4548, 205/361.

As the ASOF principals discussed the purchase, divergent viewpoints developed among them. For instance, the commercial expectations of some companies appear unrealistic.<sup>14</sup> One major company doubted the wisdom of buying the Government's ships at all and later suggested the private owners offer to charter them.<sup>15</sup> Some thought the Government's ships were unsuitable for the ASO's preferred general cargo trades, even though they were all already fully employed in various trades.<sup>16</sup> Others wanted protection from the possibility that a future Labor administration might re-enter shipping with a new fleet, and also from industrial action by maritime unions opposing the sale.<sup>17</sup> A major sticking point for the private companies was the Government's requirement that they guarantee fully to maintain the coastal trade after acquisition of the Commonwealth fleet.<sup>18</sup>

However, a realistic appraisal of these concerns suggests that some, such as the safety of their investment if a Labor Government returned, might have been largely unwarranted. For instance, from Australia's electoral record, the Coalition Government could have expected at least one more term of office, and it is doubtful that the immediate priority of any Labor Government thereafter would have been to build a new fleet to compete with securely entrenched shipowners. Nor could it have done so quickly, given the costs of such a project and the time required for design and construction of the vessels. Similarly, concerns about the suitability of some Government ships seem ill-founded, as the ships were already fully employed and could have been modified or replaced if necessary.

As the Government's ships were essential to the coastal trades, only two outcomes to the negotiations were possible: either the private shipowners would buy the Government's fleet or, if the negotiations failed, it would remain in Government

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<sup>14</sup> Smith's representative told the ASO meeting of 2/5/50 that his company would prefer to charter rather than buy the Government fleet, and would want a 15% return on funds employed. Memorandum MH, Melbourne, to MH, Sydney, 8/5/50. ML.MSS 4548 205/361. The return of 15% appears ambitious given that the after-tax return on their shareholders' funds in 1950 was 2.97% for Adelaide, 3.34% for Parker and 3.42% for Smith itself. Annual Reports of Adelaide and Parker for 1950, "Report of the Annual General Meeting of Howard Smith Limited". *The SMH* 26/10/50.

<sup>15</sup> Letter MH, Sydney to MH, Melbourne. 8/5/50 and letter MH, Melbourne, to MH, Sydney, 10/7/51. ML. MSS 205/361. The Government made clear its offer required the ships to be purchased, not chartered.

<sup>16</sup> Memorandum MH, Sydney, to MH, Melbourne, 1/12/50 ML. MSS 4548 152/361. The Government's 13 *River* class vessels had been built to carry war materiel to the Pacific but were now carrying BHP's bulk cargoes. Some smaller ships suited the trades of Holyman and Union between Tasmania and the mainland.

<sup>17</sup> Letter Rickards, MH, Sydney, to Bourne, AUSN, London, 20/3/52. ML. MSS 4548 206/361.

<sup>18</sup> Letter Rickards, MH, Sydney, to Bourne, AUSN, London, 20/1/51 reporting on discussion at the ASO meeting of 19/1/51. ML. MSS 4548 153/361.

hands as a competitive threat. Nevertheless, instead of making the offer the Minister had requested at their initial meeting, the shipowners still procrastinated, debating among themselves appropriate methods for valuing the ships and their apportionment between companies. The shipowners' inaction had two effects detrimental to their prospects of acquiring the Government's fleet. Firstly, the Prime Minister began to exhibit signs of irritation and after almost a year had elapsed without an offer to purchase the fleet, he summoned the ASO committee to Canberra on 8 November 1950. There he made four points to which he said he wanted their response promptly.<sup>19</sup> Instead, the following month he received a letter from the ASO saying it was unable to comply until the Government first expressed its views on several associated matters.<sup>20</sup> Perhaps further irritated by their evasion, Menzies again summoned the shipowners to Canberra on 18 December and told them bluntly that he wanted their offer when he returned from overseas.<sup>21</sup> Meanwhile, during the shipowners' inertia, the number of vessels offered was increasing as more ships were delivered from the Government's building programme, with a corresponding increase in the funds to be found.

Eventually, in February 1951, the ASO wrote on behalf of itself and other shipowners who wanted to acquire vessels, offering \$9.26 millions for the Government's fleet, payable over "up to twenty years" with "reasonable" interest on the outstanding balance.<sup>22</sup> That the Federal Labor Opposition and marine unions would oppose the sale was predictable.<sup>23</sup> However, the low figure offered by the

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<sup>19</sup> These were the disposal of the Government's fleet, the future conduct of the coastal trade, the financing of present and future tonnage, and support for the shipbuilding industry. Letter Rickards, MH, Sydney to Bourne, AUSN, London, 4/12/50 ML. MS 4548 152/361.

<sup>20</sup> The letter asked what price and terms the Government wanted for its ships, the extent to which the ASO would be able to buy Australian-built ships at UK-parity prices, and what freedom owners had to build or buy ships in the UK. Letter Chairman of ASO to the Prime Minister, 14/12/50. ML. MSS 4548, 152/361.

<sup>21</sup> Letter Rickards, MH, Sydney, to Bourne, AUSN, London, 20/12/50, ML. MSS 4548 152/361.

<sup>22</sup> Other terms of the shipowners' offer were that the Government quit shipping, that Australian shipbuilding be confined to Brisbane and Whyalla, and that they be allowed to build in the UK. The shipowners also sought to substitute for their undertaking to provide adequate services a statement that this would be their objective. Letter Chairman of ASO to Prime Minister, 20/2/51. Series MP 1276/3/4 Item 58/267, NAA.

The ASO's first valuation of the 28 ships then existing (16 more were building) was \$10.66 millions, achieved by capitalising their estimated earnings at 11% over their expected remaining lives. International or depreciated values would both have yielded higher valuations. Memorandum, MH, Melbourne, to MH, Sydney, 15/3/50. ML. MSS 4548 152/361.

<sup>23</sup> In Parliamentary debate the Federal Opposition incorrectly claimed it would create a monopoly, *The SMH* 7/11/53. The maritime unions also opposed the sale, with the SUA's Federal Secretary threatening to boycott the Government ships if they were sold to the private shipowners, and to

shipowners and their avoidance of guaranteeing to support Australian shipbuilding and maintain services appeared also to engender strong opposition to the sale from senior public servants.<sup>24</sup> This was led by the Secretary of the Department of Shipping and Transport, who described the sale as contrary to national interest, the offer as “totally inadequate” and “completely out of line with current trends on the world market.”<sup>25</sup> The Secretary to the Treasury supported him with an estimate that the shipowners’ offer was only 50% of the fleet’s value.<sup>26</sup>

During the twelve months that passed before the Government responded, the shipowners considered the financial aspects of their position. Firstly, a report commissioned from their accountants advised that they had the financial resources to formulate a scheme to acquire all Government ships, existing and under construction.<sup>27</sup> Another report from a Melbourne financier considered that collectively the private companies were in a strong position to raise the funds, and suggested approaches to a consortium of insurance companies.<sup>28</sup> But by the time the Government’s offer was received, the earlier differences among the ASO members that had caused the withdrawal of one member from the bulk purchase plan had become a schism, following the withdrawal of two more.<sup>29</sup> The increased financial strain this placed on the three remaining consortium members, Adelaide, Parker and McIlwraith, was heavy but apparently not insupportable.<sup>30</sup>

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organise the Country Party and graziers in opposition. General Letter 11/53, MH, Sydney, to AUSN, London, 5/8/53. ML. MSS 4548 153/361.

<sup>24</sup> “Their [the Government’s negotiators] attitude suggests that the Minister is completely under the influence of the officials of his Department, particularly McFadyen [Secretary of the Department of Shipping and Transport] who we have known all along is opposed to the sale.” Letter Rickards, MH, Sydney to Bourne, AUSN, London, 8/1/53. ML. MSS 4548 206/361. McFadyen’s responsibilities included the Government’s fleet and its construction programme.

<sup>25</sup> Memorandum from C.H. McFadyen, Secretary, Department of Shipping and Transport, to Secretary, Prime Minister’s Department, 21/3/51. Series MP 1276/3/4 Item 58/267, NAA.

<sup>26</sup> Memorandum from Secretary, Treasury, to Secretary, Prime Minister’s Department, 11/4/51. Series MP 1276/3/4 Item 58/267, NAA.

<sup>27</sup> Letter Jameson, Troup Harwood, to ASO’s Chairman, 9/4/52. ML. MSS 4548 206/361.

<sup>28</sup> Letter Mr Ian Potter to Chairman of ASO, 16/8/52. ML. MSS 4548 206/361.

<sup>29</sup> Melbourne withdrew in January 1951 because it believed that the Government fleet would not be profitable. Letter Rickards, MH, Sydney to Bourne, AUSN, London, 20/1/51. ML. MSS 4548 153/361. Smith withdrew in May 1952 because it only wanted to charter the ships. Letter Rickards, MH, Sydney, to Bourne, AUSN, London, 27/5/52. ML. MSS 4548 206/361. AUSN withdrew in September 1952 from the bulk purchase plan. Memorandum MH, Sydney, to MH, Melbourne, 20/9/52. ML. MSS 4548 206/261. The Government’s offer expressly excluded chartering the vessels or selling them piecemeal.

<sup>30</sup> Rickards estimated their combined liquidity at \$6.71 millions. Letter Rickards, MH, Sydney, to Bourne, AUSN, London, 23/7/54. ML. MSS 4548 206/361.

## *The Australian Shipping Industry*

The Minister wrote to the ASO with the Government's terms in March 1952. Fifty-one ships were now offered: twenty-nine existing (at \$16.1 millions), sixteen under construction in Australia and four in Britain (at about \$25.5 millions after 25% subsidy on Australian building), and two recently purchased in Hong Kong (at \$862,000).<sup>31</sup> The three ASO members and other companies participating in the purchasing consortium remained undeterred and notionally apportioned the fleet between their reduced numbers.<sup>32</sup> For the next two years, negotiations centred upon trying to reconcile the ASO and Government offers. The Government's negotiators sometimes showed their impatience with the relative triviality of the matters raised by the shipowners in the context of the sale's magnitude and its implications for the industry.<sup>33</sup> For instance, after one meeting they reported:

The arguments now advanced do not add anything to those previously put forward, and it is considered do not justify any review of the decisions made by the Cabinet committee.<sup>34</sup>

By 1953, however, haggling by the remaining shipowners had reduced the Government's price for its existing ships by \$3.3 millions to \$ 14.5 millions. Although those ASO members not participating in the purchase were by now excluded from negotiations, the share of the reduced deposit of \$5 millions required from the three remaining was within their means.<sup>35</sup> As negotiations continued through 1953 and 1954, rumours alternated between those who had withdrawn and the remaining consortium members indicating the Government was about to abandon or

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<sup>31</sup> 25% of the \$42.5 millions was payable as a cash deposit with the balance over ten years. Other terms of the offer stipulated the vessels' retention in the coastal trades, maintenance of adequate services, reasonable freight rates and construction in Australia of an agreed number of vessels annually. Letter Minister for Shipping and Transport to Chairman ASO, 12/3/52. ML. MSS 4548 206/361.

<sup>32</sup> Letter (unsigned), MH, Sydney, to AUSN Secretary, London, 1/2/52. ML. MSS 4548 205/361.

<sup>33</sup> According to the ASO's report of a meeting with the Government's representatives on 8/4/52 their attempts to give less stringent undertakings than the Government wanted were rejected as "pious assurances of no value." Memorandum MH, Melbourne, to MH, Sydney, 9/4/52. ML. MSS 4548 206/361.

<sup>34</sup> Sale of Commonwealth Ships: 3<sup>rd</sup> Report of Inter-Departmental Committee, 8/7/52. MP 1276/3/4 Item 58/269, NAA. At another meeting the Minister enquired why the shipowners had not accumulated sufficient funds to meet the Government's terms, as they had built no new ships since the end of the Second World War. Notes by Deputy Chairman, ASOF, on meeting with the Government's negotiating committee in Canberra 7/5/52. ML. MSS 4548. 206/361.

<sup>35</sup> The total reduction of \$3.3 millions comprised a reduction by 5% for the depreciation of the vessels that had occurred since negotiations started and lower prices for two of the ships on offer. The Government also agreed to less stringent undertakings regarding the coverage of the coastal trades and the construction of ships in Australia. Letter from ASO Chairman to Minister 19/6/52. ML. MSS 4548 206/361.

to consummate the sale.<sup>36</sup> The latter appears to have been correct, for in January 1955 the Prime Minister summoned the shipowners to Canberra to discuss the terms of his final attempt to achieve a conclusion.<sup>37</sup> He proposed a joint venture between Government (51%) and “willing ASO shipowners” (49%) to acquire the vessels at 1952 depreciated values. The major terms were a deposit of 25% of the price, with the balance payable over twelve years in annual instalments, and interest on balances at current bank rates.<sup>38</sup>

This offer was affordable and attractive enough to lure back to the consortium the companies that had withdrawn, and proved to be the last chance for the shipowners to complete the purchase. After discussing Menzies’ proposal with a Cabinet negotiating sub-committee in February 1955, the shipowners wrote several letters regarding details of the offer, but received no replies from its Chairman, the Federal Treasurer.<sup>39</sup> A further letter in August from the ASO’s Chairman to the Prime Minister himself was answered on 1 September, stating that the matter was still under Cabinet’s consideration.<sup>40</sup> The first confirmation that the shipowners received that the Government intended to abandon the sale was contained in a letter from the new Minister, Senator Paltridge, who in March 1956 wrote to the ASO’s Chairman that:

The problem [of the proposed consortium] is more intractable than early surveys indicated. The Government has decided therefore ... that the corporation proposal does not present a satisfactory solution to the problem.<sup>41</sup>

The decision was possibly forced on the Government, because although it had won the General Election of December 1955, it had lost its Senate majority from 1 July

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<sup>36</sup> Two of the many examples of conflicting rumours: “My view is negotiations have fizzled out. I believe the whole thing has run into the sand.” Memorandum Rickards, MH, Sydney, to Logan, MH, Melbourne, 14/2/53. ML. MS 4548 206/361. “McLeay [Minister] says the sale is coming up again soon. He is confident it will soon be concluded.” Letter Rickards, MH, Sydney, to Bourne, AUSN, London, 14/7/54. ML. MSS 4548 206/361.

<sup>37</sup> The Minister was reported as stating that he expected the sale to proceed with the three remaining consortium members and some independents to be the buyers. General Letter 27/54 MH, Sydney, to AUSN, London, 14/7/54. ML. MSS 4548 206/361. 14/7/54

<sup>38</sup> The Prime Minister also proposed that the Government and shareholders would each appoint three directors to the Board of the new company, whose freedom from Ministerial influence and its chairman’s independence were to be guaranteed by legislation. He also hoped that if he could legislate to block a return to shipping by a future Labor Government, the private shipowners would buy the Government’s shareholding, although they would have to support Australian shipbuilding and share with the Government the costs of unprofitable trades. Letter Rickards, MH, Sydney, to Bourne, AUSN London, 12/1/55. ML. MSS 4548 208/361.

<sup>39</sup> Letter by Chairman on behalf all ASO companies to Prime Minister 18/8/55, File MP 1276/3/4 series 58/271. NAA.

<sup>40</sup> Letter Prime Minister to Haddy, Chairman, ASO, 1/9/55.

<sup>41</sup> Letter Paltridge, Minister for Shipping and Transport, to Webb, Chairman, ASO, 8/3/56. MP 1276/3/4 series 58/272. NAA.

1956, and thus the passage through Parliament of the sale legislation would have been difficult or even impossible.

During the sale negotiations, the Government's interest was sometimes distracted by what it considered as matters of greater importance, for example, the outbreak of the Korean War and several general elections. However, the Government's *bona fides* regarding the sale appear to have been confirmed by the Prime Minister's personal involvement up until his final attempt to arrange a joint venture.<sup>42</sup> But during the period of indecision and tardiness on the part of the shipowners following their receipt of the Government's offer, ill-founded concerns and divisions developed among them. These divisions might have been pre-empted by a prompt engagement of the Government in negotiations while it still had the powers to complete it. Thus procrastination by the private shipowners can perhaps be seen as the main factor in their failure to buy the Government's fleet.

Their failure to complete the sale had important effects for the private shipowners, as during their preoccupation with the purchase negotiations their attempts modernise their fleets and practices had been minimal. The new ships they had acquired incorporated little new technology and thus by 1956 their operations had remained almost static since the end of the Second World War. In contrast, between 1950 and 1956 the Government's fleet had increased and had taken advantage of the opportunities offered shipping by an expanding economy. There were three important predictable consequences for the private shipping companies. Firstly, by not building up their fleets and modernising their operational practices, the private companies had implicitly forfeited to the Government their aspirations to regain dominance of the coastal trade. Secondly, because the shipping companies had not acquired the Government fleet, it remained as a powerful threat to their future operations. Finally, with the creation of the Australian National Line (ANL), the competitive force of the Government's presence in the industry was increased, and that of rivalry established. While negotiations were in progress the Government ships traded profitably although in 1956 the Auditor-General declined to certify ASB's accounts and balance sheet,

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<sup>42</sup> In October 1951 the Prime Minister had set out in a submission to Cabinet the elements of Government policy on shipping and shipbuilding. This included the statement "Its [Government] policy is, therefore, to dispose of all vessels owned by it [Government] to acquire these vessels at a fair price and to operate them under these conditions." [active competition, public interest and adequate services]. Delete space – I can't!

expressing surprise at its accounting standards and concern that the accounts of an activity of the Board's magnitude had not required his annual endorsement.

Even before the new Minister, Senator Paltridge, informed the ASO's Chairman in March 1956 that the Government had decided not to sell its fleet, Cabinet had already asked him to submit proposals for the future of Commonwealth shipping.<sup>43</sup> Paltridge first discussed his intentions with the private shipowners who during the meeting requested several concessions to protect their positions.<sup>44</sup> The Minister rejected all of them as too restrictive and then submitted to Cabinet a proposal for two pieces of legislation. One defined the role and powers intended for the Government's shipping entity, the Australian Coastal Shipping Commission (ACSC), the other its proposed relationship with the private shipowners.<sup>45</sup> The Minister also agreed to the repeal of the Labor Administration's *Shipping Act (1949)*, which, although unproclaimed, remained to threaten the equanimity of the independent shipowners. Cabinet approved the Minister's proposals, which were embodied in two Bills.<sup>46</sup> The Bill establishing the Australian Coastal Shipping Commission (ACSC) transferred to it the ships and powers of the wartime Australian Shipping Board that still operated the Government fleet. It also empowered the ACSC to undertake the business of a shipowner (including stevedoring), except in the intrastate trades.<sup>47</sup> The Bill also contained measures similar to Labor's 1949 Act, against which shipowners had strongly but ineffectively campaigned. For instance, the ACSC would pay interest and retire its capital only if it made a profit, and it could claim reimbursement from the Government of losses arising from unprofitable trades into which the Minister had directed it<sup>48</sup> While the ACSC was required to pay Commonwealth taxes and repay its capital debt interest, the period allowed for its

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Cabinet Submission 18A, 1/10/51. A4933 Volume 29, NAA.

<sup>43</sup> Cabinet Decision 61, 2/3/56. CRS A4926 Volume 5 NAA.

<sup>44</sup> During the discussions the shipowners requested the right to supply all future vessels for the coastal trades, agreement by the Commonwealth not to acquire any more vessels and that they continue to act as cargo agents for the Government's fleet. They also proposed that non-ASO companies be excluded from the benefits of these measures. *Ibid.* p. 7.

<sup>45</sup> The two pieces of legislation were, respectively, *The Australian Coastal Shipping Commission Bill 1956* and *The Australian Coastal Shipping Agreement Bill 1956*.

<sup>46</sup> Cabinet Decision 151 Agenda item 13, 9/5/56. A4926, Volume 5, NAA.

<sup>47</sup> *The Australian Coastal Shipping Commission Bill 1956*.

<sup>48</sup> The similarity of the Government's legislation and the Labor Administration's 1949 Act was noted during the House of Representatives debate by E. G. Whitlam, (Member for Werriwa). However, he deplored the terms of the agreement with the private shipowners, "the only form of transport entirely in private hands...and a disgrace to private enterprise". *Parliamentary Debate, House of Representatives*. 1<sup>st</sup> Session, 22<sup>nd</sup> Parliament, Volumes 11,12, 13, p. 3369.

retirement, and the quantum of profits to be allocated to this purpose was left for the Minister's determination.

The second piece of legislation, *The Australian Coastal Shipping Agreement Bill*, recorded the agreement reached after discussion between the Government, thirteen ASOF and other shipping companies and two stevedoring companies. This reflected the Minister's negotiations with the private sector. While its main provisions restricted the ACSC for twenty years to operating a maximum fleet of 325,000 gross tons in trades between States and Territories and excluded it from intrastate trades, there were no restrictions on the Commission's entrance to international trades. Although this Bill empowered the Commission to stevedore its own vessels and book and handle their cargoes, the legislation was sweetened for private owners and stevedores by leaving these functions with them, subject to their satisfactory performance.

Both Bills completed their passage through Parliament on 19 June 1956, and upon proclamation of these Acts on 1 October 1956, the Australian Coastal Shipping Commission (ACSC) and Australian National Line (ANL), the Commission's business name, commenced operations.<sup>49</sup> The Government appointed Captain John P. Williams, a Master Mariner, marine salvage expert and successful businessman, as both General Manager of the ANL and a Commissioner of the Shipping Commission, a choice universally approved. He thus described the terms of his appointment as laid down by the forthright Senator Paltridge:

... I was told that the fleet was to run as a private enterprise, ... expected to provide an adequate and efficient service, ... that we need not look for any Government help ... the reverse in fact; that the written down value of the ships was fifteen million pounds [\$A 30 millions]; we would be given that sum to buy them ... and no more; and that if we could not make a go of it, to Hell with the lot of us. Then ... he said that he wanted me to run the Line as if I had my own funds at risk and that if we paid a dividend of 6% on capital and kept anything extra to build up the business it would be all right with him - 'But just give us the money, Mister.'<sup>50</sup>

The \$A30 millions loaned to the ACSC by the Government for acquisition of the 46-ship fleet seems low compared with the \$42.5 millions at which Government had valued 51 ships in 1952 for private sale, and the low capitalisation certainly enhanced the Line's prospects of commercial success.

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<sup>49</sup> Ibid. loc.cit.

<sup>50</sup> Captain Sir John Williams. *So Ends this Day*, Globe, Melbourne, 1981, p.185.

In establishing the ANL, the Government, it appeared, had found a neat solution to several problems. Firstly, as the private shipowners were parties to the *Coastal Shipping Agreement*, it provided a Government, perhaps weary of their vacillations, with an exit from negotiations with them and on terms that preserved some of the shipowners' rights. The establishment of the ANL also blunted criticism from the Federal Opposition and its supporters, the unions, for the principles of public participation in essential industries had been upheld, and the ANL was there for whenever Labor resumed administration. Even the shipowners, claiming financially straitened circumstances and unable to agree amongst themselves, perhaps thought they had done well inasmuch as they appeared to have shackled the ANL's future growth for twenty years without further cost or risk. The ANL's creation strengthened one competitive force and reintroduced another. For the ANL's function of participating in the coastal trades strengthened the Government's shipping industry presence and its potential to affect companies' profits by policy support for its Line. It also reintroduced rivalry to Australian shipping for the first time since the early 1900's when intense competition between the major shipowners for distribution of the coal vend had prompted them to combine in the Collins Group cartel in 1902. Certainly, how the course of Australian shipping's post-war history would have been different if the private companies had bought the Government ships can never be known. But, arguably, it could not expect to survive unless it did, a view held by senior independent shipowners.<sup>51</sup> While the private shipowners negotiated with the Government to buy its ships their labour costs rose significantly, forcing up freight rates and so weakening shipping's competitiveness with its substitutes, to whom it was increasingly losing its general cargoes.

### **The Competitive Effects of Labour**

The bargaining power of suppliers was a key force shaping the optimism, then decline of the shipping industry between 1950 and 1964. As Porter comments,

We usually think of suppliers as other firms, but labour must be recognised as a supplier as well, and one that exerts great power in many industries. ... The key additions [to general conditions] in assessing the power of labour are its degree of organisation, and whether the supply of scarce varieties of labour can expand.<sup>52</sup>

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<sup>51</sup> During the negotiations the Chairman of Adelaide, who was also ASO's Chair, remarked, "We know we cannot compete with the public purse." ASO memorandum 8/11/51. ML. MSS 4548, 205/361

<sup>52</sup> Michael E. Porter, *Competitive Strategy*, op. cit. p.28.

The universal union membership of shipping's workforce, and its willingness at this time to strike over any issue to which it was directed, demonstrated a high degree of organisation by the Australian maritime unions. The monopoly of supply of their members' labour held by the unions under the Arbitration system and the MIC and SIC ensured that its supply could only expand at their discretion. In the 1950's crew costs formed approximately one-third of total ship's costs and waterfront labour 80% of stevedoring charges that in general cargo trades represented 48.5% of voyage costs.<sup>53</sup> Labour was, therefore, a significant part of shipping costs, especially in the general cargo trades where long port stays and high stevedoring charges occurred twice every passage, on loading and discharging. The effects of labour costs on shipping's competitiveness were transmitted through freight rates.

The number of investigations initiated by the Coalition Government and the new Minister for Labour's request that the ASOF "keep him advised on matters relating to the waterfront" indicated a greater commitment than its predecessor to assist shipping's industrial problems.<sup>54</sup> By 1951 the Minister's criticism that shipowners lacked cooperation, because they had not disciplined seamen and waterside workers for disruption of shipping loaded by troops in default of wharf labour, indicated the Government's approach to be confronting rather than controlling.<sup>55</sup> These policies yielded as little success as the more conciliatory attitude of the preceding Government and disruption to shipping persisted as the SUA and WWF pursued their campaigns for political and employment objectives.

Throughout the 1950's labour costs rose steadily as a consequence of claims for improved remuneration usually pressed by industrial action to delay ships that in itself imposed costs. An early instance was the incorporation in 1950 into the Awards of the allowance paid for war risks which effectively also increased overtime rates. Their monopolies of the supply of seamen and wharf labour were the tools most frequently used by the SUA and the WWF, not only in claiming improved conditions

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<sup>53</sup> The seagoing allowance was formerly the bonus awarded for war risks during the Second World War. In 1955 the SUA also won the right to control the engagement of seamen. Brian Fitzpatrick & Rowan Cahill, *The Seamen's Union of Australia*, op. cit. p. 269.

<sup>54</sup> Thus the Government set up the Basten and Tait waterfront inquiries of 1952 and 1954 respectively. The regulatory powers of the ASIB were increased in 1952 and a new Stevedoring Act and new authority, the ASIA, established in 1956. All initiatives, except establishing the inquiries, increased waterfront disciplinary measures. Margo Beasley, *Wharfies*, op.cit. pp. 140-154. See also ASIA Annual Report 1957.

<sup>55</sup> Report by Chairman, ASOF, on Meeting between ASOF representatives and Minister for Labour and National Service, 8/6/ 51. E217/184, NGB.

of employment, but in disputes with a political flavour.<sup>56</sup> For example, the SUA magnified the natural shortages of seamen by claims of illness, and by using award provisions, which allowed a seaman to resign after six months' service if his ship was in his home port.<sup>57</sup> The contrived vacancies would be enough to ensure that remaining crew numbers were below the Navigation Acts' safety criteria so the vessel would have to wait, with other crew members on full pay, until more men were found. Although the Government wound up the MIC in 1952, the deregulation of seamen's employment made little improvement in labour relations.

**Table 6.1**

**Delays to Australian Shipping from Crew Shortages and/or Disputes, 1951-1953**

Year	No: Delays	Ship Days Lost	Av. Delays (Days)
1951	227	2,382	10.5
1952	142	891	8.3
1953	114	515	4.5

Source: ASOF Circular F10, 13/1/54. E217/134 NGB

Table 6.1 records the total delays to Australian ships by marine unions for three years of this period.<sup>58</sup> Of these, 54%, 20% and 47% of days lost in the years 1951, 1952 and 1953 respectively, were attributable to crew shortages, real or contrived, the remainder to a variety of disputes.<sup>59</sup> By 1954 the long history of concessions to seamen by the Arbitration system and MIC, such as guaranteed

<sup>56</sup> Much of the SUA's industrial action was for the creation of a pool of registered seamen and payment of attendance money to those offering for work who did not obtain it. The proposal was strongly resisted by all shipowners for several more years. Letter Chairman, ASO, to Minister, 28/4/52. E217/131 NGB.

<sup>57</sup> An ISOA letter of 31/5/50 to the Minister states that the *William McArthur* had already been delayed for five days in Newcastle by a shortage of firemen (stokers), who had drawn lots to decide the turn of men to claim sickness. Attachment to ASOF Circular F.186, 1/6/50. NGB. Again, an ASOF report of a shipowners' meeting to discuss the manning crisis attaches a list of seven vessels, of which three by 22/3/51 had been delayed for more than three months by crew shortages and disputes concerning bunker coal. Report of Conference held in ASOF Boardroom 22 March 1951 E217/129 NGB.

<sup>58</sup> A report commissioned by the Government from a British expert in 1951 identified poor customs and port administrative procedures as contributing to the slow turn-round of vessels as well as poor labour relations. Henry Basten, *Report to the Attorney-General on the Turn-Round of Ships in Australian Ports*, by Henry Basten C.M.G, AGPS, Canberra, 1952 (The Basten Report).

<sup>59</sup> The worst post-war dispute to disrupt the waterfront occurred in the late 1950's. At issue in the 1957 Krespi case was the WWF's claim for the man's reinstatement after he was dismissed for drunkenness and assault. "The dispute involved some 3,850 men and cost the industry an estimated 400,000 man hours. Schedules of coastal and overseas vessels were seriously disorganised." ASIA, *Annual Report 1958*. Again, Hobart waterfront and ships using it were disrupted by wharf strikes between 1957 and 1959 because two waterside workers, the Hursey brothers, refused to pay a levy imposed by the WWF to boost Labor Party funds. Margo Beasley, *Wharfies*, op. cit. pp. 186-7.

overtime, had raised ratings' earnings to levels approaching, or even exceeding, those of the usually industrially placid ships' masters who went on a two-week strike.<sup>60</sup>

Using its monopoly of labour to contrive shortages of men to fill vacancies in the port quotas, imposing work restrictions and stoppages on the wharves, the WWF also continued to restrict wharf productivity. From 1952-53 to 1955-56 the percentage of man hours spent in disputes expressed as a percentage of the total worked rose from 3.1% to 8.6% in 1955-56, the seemingly endless variety of issues providing an indication of the WWF's militancy.<sup>61</sup> However, besides this general indication of waterfront disorder, shipping was severely disrupted by the WWF in 1954 by a dispute over recruitment, and again in 1956 by another over margins for skill.<sup>62</sup> In 1956 the Government replaced its regulatory body with the Australian Stevedoring Industry Authority (ASIA) comprising three members representative of labour, employers and Government, and returned responsibility for industrial regulation to the Conciliation and Arbitration Commission.<sup>63</sup>

By 1956 a new source of labour unrest worsened the reputation of the seagoing unions for refractory conduct. Since 1955, Australian shipowners had been progressively selling overseas their ships made surplus by a combination of competition, mechanised cargo handling and technology, and replacing them with fewer, modern ships. The marine unions began a practice of offsetting their loss of employment by extracting 'indemnity' payments from the new owners unless they employed Australian seamen for the delivery voyage overseas.<sup>64</sup> The practice gained

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<sup>60</sup> The anomaly and threat of further action was removed in 1956 by paying the masters an allowance for piloting their own ships.

<sup>61</sup> The Australian Stevedoring Industry Board, *Annual Reports, 1950-1955*. See also ASIA, *Annual Report, 1956*, and ASOF Circulars F86 11/3/50 and F332 25/10/50. E217/129, NGB. These include disputes over the rotation of stevedoring gangs between hatches, the increased cost of living, appointment of union members as First Aid men, increases in attendance money, maximum sling loads, safety issues and protests against the government's anti-communist legislation. The ASIB and ASIA Reports do not isolate the stoppages of work on Australian ships from those of foreign lines.

<sup>62</sup> The Australian Stevedoring Industry Board, *Sixth Report, 30/6/55*. The former protested against the Government's proposed amendments to the Stevedoring Act allowing employers to recruit wharf labour themselves to overcome the WWF's ability to manipulate labour supply by not filling port quotas. Shipping was immobilised for two weeks and 1.7 million man hours lost. ASIA, *Annual Report 30/6/55* The margins dispute resulted from Mr. Justice Ashburner's refusal to increase the wharf workers' margins for skill. Again, Australian shipping was immobilised; from 23/1/56 until 14/2/56 with a loss of 0.868 million man hours. Margo Beasley, *Wharfies*, op. cit. p. 175.

<sup>63</sup> The relevant legislation was embodied in the *Stevedoring Industry Act 1956* and amendments to the *Conciliation and Arbitration Act*.

<sup>64</sup> *The Daily Telegraph* of 19/6/57 reported that the SUA admitted to obtaining \$46,000 by these means in 1956. *The SMH*, 17/1/58, reported that the ACTU had banned indemnity payments. The arrest of Elliott, the SUA's Federal Secretary, in February 1958 while carrying indemnity money and further claims for indemnity payments showed the maritime unions disregarded the ACTU's injunction.

notoriety in 1958 when the SUA's Federal Secretary, E.V. Elliott, was arrested in Sydney on a charge of drunkenness, and was found to be carrying \$2,250 in banknotes, his union's share of an indemnity payment he intended to bank the following day.<sup>65</sup> Because Elliott's association with the CPA was well known, adverse press publicity for the SUA and other marine unions ensued, increasing Government and public antipathy to the industry and its unions. As a consequence, the Government established a Senate Select Committee to investigate the indemnity payments.<sup>66</sup>

Another source of employment loss, the introduction of technology, had already been noted by Elliott at the SUA's 1956 Annual Convention when he reported that seamen's jobs had fallen from 12,000 after World War I to 7,000 twenty years ago, and were now only 2,828. He concluded:

The tonnage [of shipping] coming on to this coast is greater than the tonnage which has gone off, but the number of men below to man that increased tonnage will be considerably less than it took to man the old tonnage.<sup>67</sup>

The WWF's membership similarly declined by 23% from 26,813 to 20,649 between 1955 and 1963.<sup>68</sup> The cause, referred to at an International Labour Organisation (ILO) conference by the WWF Secretary, was largely due to improved stevedoring methods and equipment.<sup>69</sup> He outlined the response of unions to technological advances:

The combined labour movement must campaign for greater paid leisure time, a shorter working week, increased leave at shorter intervals, ... in addition we need to establish pension schemes where none now exist ...<sup>70</sup>

Put in context, the WWF's concern was that its middle-aged members (their ages in 1963 averaged 47.1 years) were casually employed and without redundancy pay or industry pension rights; the seamen were in a similar position. The effect on shipping was that from the late 1950s onwards, concerns of declining work

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<sup>65</sup> Brian Fitzpatrick & Rowan Cahill *The Seamen's Union of Australia* op. cit. p. 225-227. "Between 1956 and 1958 the SUA banked a total of \$77,170 tax free into its Peace and Progress funds." Ibid. p. 267.

<sup>66</sup> The Committee's findings were critical both of the unions and also of the shipowners for paying the money. However, no Government action followed, although the Committee's report described the payments as acts of "conspiracy, extortion and intimidation." Ibid. p. 269.

<sup>67</sup> "Extract from Committee of Management Report", read by E.V. Elliott at SUA Convention, 1956. CSOA Circular 121, 6/7/56. E217/163, NGB.

<sup>68</sup> ASIA, *Annual Reports for 1956 and 1964*.

<sup>69</sup> As an example, he mentioned the conversion of Queensland's sugar industry to bulk handling which reduced the number of sugar ports from ten to six and, as a result, the number of registered waterside workers in Mackay from 401 in 1955 to 148 in 1958. The pattern was repeated in other ports both in Queensland and elsewhere. C. H. FitzGibbon, *Technical Changes in the Stevedoring Industry and Some of the Effects*, Paper delivered to the ILO, Geneva, February 1967. P102/92, Volume 1. NGB.

<sup>70</sup> Ibid. p.12.

availability added to the existing causes of industrial disputes. These delayed vessels as seagoing and waterfront unions sought pension rights and other measures to protect their members against the effects of redundancy. Neither the SUA nor WWF accepted that a change from casual to 'permanent employment' would provide the protection sought by their members and continued campaigning for such benefits of permanent employment as pensions and long-service leave, while avoiding the accompanying responsibilities and discipline.<sup>71</sup> Even with the improved social security that their campaigns won for them, the marine and waterfront unions still strongly resisted the reduction of their membership made possible by technology. "The union instead fought for wharfies to handle new machines and equipment, battled demarcation changes and tried to maintain manning scales."<sup>72</sup> Thus the award of these benefits appeared to prompt further claims without abatement of labour disturbances. As the secretary of the employers' Central Committee argued,

... the claims put forward by you - a million pound fund against automation and mechanisation, pensions, long service leave and annual leave - would represent a very substantial burden amounting in all to increased costs of several million pounds per year. The granting of such claims would necessarily involve marked increases in freight rates leading inevitably to further loss of cargo and work for waterside workers.<sup>73</sup>

Many years passed before the maritime labour movement could be induced to accept the reductions in manpower made possible by technology already reflected in the capital costs of investment in ships and on the wharves.

The winding up of the MIC in 1952 removed Government controls from the supply of seamen. Wharf labour supply remained regulated by the ASIB that shipowners considered stood between them and a normal employer/employee relationship as it "robs the employer of his right to select his own labour and to discipline individual employees as required."<sup>74</sup> The Government, however, believed that permanent employment was the key to improved waterfront labour relations, but this clearly could not coexist with the continuing regulation of stevedoring by the

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<sup>71</sup> Based on their observed behaviour, shipowners had long believed this to be the unions' policy. "In any case past experience has clearly demonstrated that the WWF - while accepting all that has been given by the Arbitration Court, Stevedoring Industry Commission or employers - does not fulfil its obligations to the industry." Letter from ASOF to Chairman, OSRA, 23/10/50. E217/129 NGB.

<sup>72</sup> Margo Beasley, *Wharfies* op. cit p.195.

<sup>73</sup> Letter from Secretary, Central Committee, to General Secretary of the WWF, 27/10/02. E217/143, NGB.

<sup>74</sup> Report [undated] of a meeting between ASOF representatives and the Minister of Labour in Melbourne on 8/6/51. E217/184, NGB.

ASIB.<sup>75</sup> Thus from the viewpoint of both Government and employers, a precondition of the stabilisation of waterfront labour was that the Government abandon its regulatory role.<sup>76</sup> However, the Government confirmed rather than reduced its regulation of the waterfront by legislating in 1956 to replace the ASIB with a new body, the Australian Stevedoring Industry Authority (ASIA).<sup>77</sup> Neither the MIC's absence nor the ASIA's presence discernibly improved control over shipping's labour or lessened the frequency of delays that increased pressure on the costs of shipping and its reputation for unreliability.<sup>78</sup> Disputes stemmed from a wide variety of causes, such as industrial action in 1959 by both the SUA and WWF to support striking Italian seamen.<sup>79</sup> More strikes occurred over Awards and disciplinary matters, such as those of the SUA against the retention in its 1960 Award of a Bans clause that had been inserted in the previous Award.<sup>80</sup> The ASIA's attempts to curb unauthorised work stoppages by reducing long service leave entitlements and imposing attendance money forfeits only worsened industrial disruption and were respectively cancelled in 1962 and suspended in 1963. Overall, shipping's labour problems were compounded rather than eased by the strengthening of the ASIA..

By 1964 shipping's labour relations had deteriorated to such an extent as a result of these campaigns that a compulsory conference was called between the SUA and employers. At the conference the SUA won its first objective: a stabilisation scheme that provided for seamen to be registered by an independent authority on

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<sup>75</sup> "Mr. Holt [Minister for Labour] said the government wished to see greater security and permanency for men employed and he asked Mr. Healy [General Secretary, WWF] what would be the attitude of the WWF towards a scheme of permanent or regular employment. Mr Healy replied that there was a traditional resistance by his members against any such scheme, ..." Report on Conference at Melbourne, 16/3/52, between Representatives of Shipowners, WWF and ASIB, chaired by Mr. Holt, Minister for Labour. E217/132 NGB.

<sup>76</sup> The views of the WWF and shipowners coincided. Asked the WWF's views on the ASIB, Healy, its General Secretary, said, "... the Board [ASIB] made little or no contribution to the industry, particularly in regard to amenities." Ibid. loc.cit.

<sup>77</sup> The shipowners made many approaches to the Government to abolish the ASIB. At one of these, Holt, the Minister for Labour, said, "I am sympathetically disposed to your [the shipowners] approach on the abolition of the ASIB. I have an open mind as to the Board and am not wedded to it." Report on meeting between representatives of ASOF and OSRA with Minister 3/2/53. E217/133. NGB. Perhaps the Minister considered the substitution of the ASIA for the ASIB would satisfy the shipowners.

<sup>78</sup> ASIA, *Annual Reports 1961-65* Between 1957 and 1964 an average of 3% of total hours worked annually were lost in unauthorised stoppages in the marine industry. The Commonwealth Statistician did not separate working days lost by seamen from those of waterfront labour until 1963.

<sup>79</sup> Brian Fitzpatrick & Rowan Cahill, *The Seamen's Union of Australia*,. op. cit. p.27.

<sup>80</sup> ASIA, *Annual Report 1965*. In 1964 the ASIA reported that unauthorised stoppages over discipline accounted for 47.3% and 22.6% of all stoppages in 1963-64 and 1964-1965, respectively. Brian Fitzgerald & Rowan Cahill, *The Seamen's Union of Australia*, op. cit p.276. The SUA's protests against its Bans clause earned it the first penalties imposed by the Industrial Court, established in 1956.

becoming unemployed, and to be paid attendance money. Meanwhile, the WWF had won long service leave by an amendment in 1961 to the Commonwealth's *Stevedoring Industry Act*. This use of Federal rather than state legislation enabled the Government to attach penal provisions to the Award, curtailing long service leave and attendance money entitlements in the event of unauthorised stoppages. These provisions were deeply resented by the WWF and provoked a new wave of work stoppages.<sup>81</sup> Nevertheless, the WWF continued with its programme for social support, and in 1964 stated a pension fund as its next objective.<sup>82</sup>

The effects on freight rates and stevedoring charges of these increases in interstate shipping's labour costs were studied by the committee of inquiry into stevedoring established by the Government in 1954, which published its interim report in 1956.<sup>83</sup> Between 1947-48 and 1953-54, shipping's largest cost increases were crew costs, comprising 40% of hire rates (one-third of total ship costs), which increased 125%, and stevedoring costs, forming 48.5% of total voyage costs in the general cargo trades which increased by 100%.<sup>84</sup> In its analysis the report defines total voyage costs:

Total Voyage Costs = Ship costs (voyage times, hire rates and bunkers) + stevedoring costs.<sup>85</sup>

Increases in total voyage costs between 1947-48 and 1953-54 per ton of cargo carried, ranged from 39% to 170% depending on trade and averaged 100%. The report's itemised analysis of ship costs concluded that as sea times for a specific vessel on a specific run showed little variation major extensions in voyage times were attributable to extended port times. Although these were normally longer for shipping than for road and rail's terminal times, they had been further extended in the early post-war years by industrial unrest, labour shortages and administrative deficiencies.

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<sup>81</sup> ASIA, *Annual Report 1961*, p.41 Using Federal legislation enabled the Government to provide that for every day of stoppage, striking waterside workers would not only need to serve an extra day to qualify for the leave, but would also lose four days attendance money. Margo Beasley, *Wharfies*, .op. cit. pp.204-206. After widespread protest stoppages, the long service penalties were cancelled in 1962 and the attendance money forfeits suspended, but without restitution, in 1963.

<sup>82</sup> Margo Beasley, *Wharfies*, op. cit. p.207.

<sup>83</sup> *Report to the Minister of State for National Service by the Committee of Inquiry into the Stevedoring Industry-1957*, AGPS, Canberra, 1957 (The Tait Report)

<sup>84</sup> Ibid. Part XI.

<sup>85</sup> Ibid. p.134.

<sup>86</sup> A major reason for the port congestion was a reduction in stevedoring productivity. Taking Melbourne as an example, the tonnage handled over the same berths had declined from a daily average of 1,357 to 378 tons between 1938 and 1949, in spite of berth modernisation, while the average stay of

The effects of these costs on shipping's competitiveness with respect to its substitutes is encapsulated in differences in the percentage increases in freight rates, each made over the period to maintain profitability, shown in Table 6.2.

**Table 6.2**

**Percentage Average Freight Rate Increases, 1947-48 to 1953-54**

<b>Air Transport</b>	<b>Road Transport</b>	<b>Rail</b>	<b>Shipping</b>
32.3	62.16	98.48	150.45

Source: *The Costs of Transport in Australia*, op.cit. pp.5-8

The weighted average of the increases in shipping's freight rates ultimately borne by the community was 161%, with individual increases ranging between 76% and 223% according to the commodity.<sup>87</sup>

The net trading result of the eight major private shipowners and the Government's own ships between 1947-48 and 1953-54 was a loss of \$334,570, to which labour problems clearly contributed substantially.<sup>88</sup>

**Table 6.3**

**Percentage Average Profits/(Losses) to Average Freight Earned,  
Selected Voyages**

<b>Trade</b>	<b>1947-48</b>	<b>1953-54</b>
Gen. NSW-Q'ld Ports	(28.0) (max)	(5.3) (min)
Gen. East Coast-Fremantle	(9.9) (min)	8.5 (max)
Steel N'castle-Melb	(58.0)	(0.6)
Sugar Q'ld-Sydney	(81.5) (min)	6.8 (min)
Sugar Q'ld-Fremantle	5.8 (max)	-
Sugar Q'ld-Adelaide	-	21.2 (max)
Coal N'castle-Melb	(11.3) (min)	19.4 (min)
Coal N'castle-Adelaide	Nil (max)	25.9 (max)

Source: *The Tait Report*, op. cit. p.137

coastal vessels had increased from 0.91 days to 5.07 days over the same period. Port of Melbourne Authority, *Annual Report for 1949*, p. 15.

<sup>87</sup> The Tait Report, Part XI

<sup>88</sup> Ibid. Part XII

Table 6.3 shows for the same period maximum and minimum percentages of profit (loss) to average freight earned on average voyages in selected trades. It therefore permits comparison of the proportion that average profit (loss) bore to average freight for these trades in each period.

Although increases in freight rates applied by shipowners in February 1951 had succeeded initially in restoring profitability, by 1954–55 the results of the private owners were again showing losses. Obviously cost increases in shipping's labour had seriously affected its capability to compete effectively with its substitutes, but their effects must be assessed in the context of the substitutes' inherent superiority for particular cargoes and trades.

### **The Intrastate Trades and Competition from Substitutes**

The competitive force exerted by substitutes in shipping's explanatory model differs from those of Porter's inasmuch as shipping's substitutes are clearly identifiable and were strengthened by a feature not suggested by Porter.<sup>89</sup> Transport modes differ from each other in respect of their characteristics and the operational features and cost structures of their services that make one superior to another in carrying a particular type of cargo. In 1945 air, road and rail transport were shipping's principal substitutes but pre-war road transport was rendered uncompetitive with shipping by poor roads and taxation, and rail by breaks of gauge at state borders. Porter argues the substitutes deserving most attention are those subject to trends improving their price performance trade-off.<sup>90</sup> In shipping's case it was Government financial support rather than a trend that supplemented the inherent suitability of its substitutes for the transport of passengers and general cargo and, assisted by technical advances, enabled air, road and rail to capture the coastal passenger and general cargo trades.

Air transport is ideally suited to passenger traffic and light, valuable goods where comfort and rapid transit, especially over long distances, can sustain a freight rate premium. In most cases, road transport has the convenience of door-to-door pick-up and delivery, so it tends to dominate in the transport of lightweight shipments unless disadvantaged by infrastructure or constrained by legislation. Rail attracts

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<sup>89</sup> Porter says identifying substitutes can sometimes be a subtle task. Michael E. Porter, *Competitive Strategy*, op. cit. p.23. Those deserving most attention, he argues, are subject to trends improving their price performance trade-off or those produced by high profit industries. Ibid. p.24.

<sup>90</sup> Ibid. loc. cit.

bulkier and heavier weight cargoes, such as bulk ores and wheat, less able to bear high transport costs. Shipping is usually the cheapest form of transport for heavy cargoes such as ores and coal over long distances, but with the advantage of also being able to carry lighter goods and passengers to destinations inaccessible or inconvenient for other modes. All four modes shared the common feature in their freight trades of tapering ton-mile costs as the costs of loading and discharging cargoes in ports or terminals is averaged over the length of the line haul, an effect obviously accentuated by distance. The effect was more pronounced in shipping where the typically higher costs of longer stays in port were spread over greater distances. The fact that coastal shipping pre-war was able to attract many cargoes its substitutes were inherently better suited to carry was largely due to the constraints of legislation and to poor infrastructure. If these constraints were reduced, shipping could clearly expect to lose some of its cargoes to other modes better suited to their transport than shipping, in particular its passengers and general cargoes. In 1945 the relative competitive positions of the four modes had outwardly changed little, but in wartime and the early years thereafter changes in the substitutes' infrastructure, relevant legislation and technology in their favour altered the competitive balance between shipping in its major trades and the other three.

An early instance was the Government's wartime improvement of air transport's infrastructure to facilitate wartime movement of men and equipment, reinforced in 1949 by its two-airlines policy that created the Trans-Australia Airlines (TAA)/Australian National Airlines (ANA) duopoly.<sup>91</sup> Thereafter travellers turned increasingly to air and the airlines' domestic passenger numbers grew from 509,190 in 1946 to 1,409,300 in 1949. By 1956 the affordable prices of the efficient and comfortable long-distance passenger transport the airlines provided fell 21% short of full cost recovery, due to the assistance of several direct and indirect subsidies.<sup>92</sup> Shipping's passenger vessels could, therefore, expect strong air competition when they belatedly returned to service after post-war refits.

Pre-war interstate general cargo transport was dominated by shipping. Large trucks were unavailable to road hauliers, poor surfaces of major routes were only

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<sup>91</sup> TAA was Government-owned, the ANA was owned by five shipping companies; three Australian (Adelaide, Holyman, Parker) and two foreign, P&O (British) and Union (New Zealand). Ian P. Sabey, *Challenge in the Skies*, Hyland House, South Yarra, Vic, 1979, p.7.

<sup>92</sup> R.R. Hirst. The Transport Industry, in *Economics of Australian Industry*, op. cit. p.68. Hirst believes 21% underestimates the short-fall.

adequate for use by the small inefficient vehicles that were procurable, so road was unable to offer a competitive alternative to shipping. Road transport was also subjected by state governments to tax legislation that protected their railways from competition on both intrastate and interstate routes.<sup>93</sup> By 1945, however, road transport's competitiveness with shipping on interstate routes had been enhanced by the development during the Second World War of strategically important roads capable of bearing heavy military traffic. These included the up-grading of existing roads and the construction of others, such as the Stuart and Eyre Highways, a supply route between Brisbane and Darwin and new roads in outback Western Australia.<sup>94</sup> With absence of scale economies, little product differentiation and low equity requirements, post-war barriers to entering the road haulage industry were minimal. The availability of large war-surplus American ex-Army trucks well suited to carrying interstate general cargo efficiently and economically over the improved road system therefore attracted many ex-servicemen to becoming owner-drivers in road transport from 1945 onwards.<sup>95</sup> In 1954 road transport received a strong boost from the decision in the Hughes and Vale case, when the Privy Council declared *ultra vires* the tax imposed on interstate road movements by the New South Wales government to protect its railways. The decision reduced road freight charges and attracted more entrants to the industry, increasing competition. Road transport's labour costs were low compared with rail's and its short terminal times maximised driver and equipment usage. With the removal of interstate tax, road transport was, therefore, in a strong competitive position by the mid-1950's.

Railways with their rigid rate structures were slow and inefficient in the 1950's because of breaks of gauge at state borders, restricted in many places by single lines and, therefore, not suited to handle cheaply and efficiently large quantities of general cargoes. In wartime, some railway workshops had been converted to armament production, restricting the maintenance of rolling stock, much of which by 1946 needed repair or replacement. Like shipping, the railways therefore commenced

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<sup>93</sup> Bureau of Transport Economics, *The Long Distance Road Haulage Industry*, AGPS, Canberra, 1980. p. 9.

<sup>94</sup> Bureau of Transport Economics, *Assessment of the Australian Road System*, AGPS, Canberra, 1984. p. 8.

<sup>95</sup> Many were bought by ex-servicemen who were encouraged by the low cost of entry to invest their demobilisation gratuities in purchase of these trucks and as owner-drivers they were not susceptible to the industrial disputes prevailing in shipping. P.J. Rimmer, *Freight Forwarding in Australia*, Research School of Pacific Studies, ANU, Canberra, 1970. p.10.

the post-war period in a run-down condition that was promptly recognised by the state governments, who immediately applied their resources to rectifying it.<sup>96</sup> Rail transport has two characteristics relevant to its competitiveness with shipping. In post-war Australia, as in many countries, railways were regarded by their government owners as necessary public utilities and not required to recover their costs that, almost without exception, exceeded annual revenue. A substantial component of rail's total costs are fixed, encouraging freight rates to be cut, provided terminal and line-haul costs are recovered with a contribution to the fixed component. This puts rail in a strong competitive position with regard to road transport and also with shipping between port cities. A freight-cutting war between road and rail on routes served by coastal shipping therefore places it in the position of needing to offer competitive rates or lose cargoes. Post-war the competitive balance between shipping and these substitutes was tilted in favour of the latter by their new, efficient equipment and improvement of their infrastructure substantially at Government expense, and tilted against shipping mainly because of increased total voyage costs.

The Tait inquiry had estimated crew and stevedoring costs as 40% and 50% respectively of interstate voyage costs, ratios that rise appreciably with short voyages involving frequent port visits.<sup>97</sup> With short routes and freight rates inflated by labour costs, intrastate companies were more vulnerable than the interstate operators to the newly strengthened competition of these substitutes, to which the New South Wales intrastate shipping companies first succumbed.<sup>98</sup>

Most intrastate shipping was regulated by the respective state authorities on whom it depended for maintenance of channels and port facilities. Although several vessels of the intrastate fleets saw wartime service as naval auxiliaries, the Shipping Control Board decided in 1941 not to requisition the remaining intrastate ships.<sup>99</sup> This sector thus largely escaped the post-war constraint of having to await the

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<sup>96</sup> Even before the Second World War ended, the New South Wales Government had ordered 25 high speed locomotives, 500 goods wagons, 70 refrigerated vans and 100 brake vans in anticipation of strong air and road competition postwar. General Letter 1/45, MH, Sydney, to AUSN, London, 14/2/45 ML. MSS 4548 149/361. The Queensland Government, for example, ordered 94 new engines in 1947 alone to relieve shortages "due to lack of wartime maintenance". General Letter 11/47, MH, Sydney, to AUSN, London, 28/10/47. ML. MSS. 4548 149/361.

<sup>97</sup> *The Tait Report*. op. cit. p. 136.

<sup>98</sup> In Sydney for example, the busiest coastal general cargo port, tonnages loaded and discharged had fallen from 1,312,593 tons in 1939 to 667,594 by 1949. Government of New South Wales, *New South Wales Year Book 1953*, NSW Government Printer, 1953, p. 105.

<sup>99</sup> "It seems to the Board to be unnecessary to requisition the ships engaged in the Eyre Peninsula and Spencer Gulf trades ... Further enquiries made by the Board appear to show that the advantages

release of its ships, and the rivalry of a Government line excluded from intrastate trades.<sup>100</sup> Because these companies did not seek to build new ships they were also unaffected by the Government's shipbuilding policies, but as their crews and waterfront labour worked under Federal Awards their labour supply was subject to the restrictions of regulation by the Government's MIC and SIC.<sup>101</sup> In 1945 the New South Wales companies were preoccupied with trying to regain cargo transferred to rail during wartime while their fleets were depleted due to enemy action and requisition. The run-down condition of the state's railways should have assisted them and also helped to win cargo from railways during the prolonged rail strike that occurred in the eastern states during 1949. But in 1949 unprecedented bad weather along the New South Wales coast, and the state government's neglect of dredging the northern rivers made it impossible for North Coast to provide its regular shipping services.<sup>102</sup> The freight-cutting competition between road and rail that followed the railways' refurbishment increased the disparity between the costs of shipping and land transport and although these companies were relatively asset-rich they soon became revenue-poor. The inability of the intrastate companies to meet land competition was summarised by Illawarra: "... rail and road competition made it impossible to increase our freight rates to an extent sufficient to absorb rising costs and continue trading at a profit."<sup>103</sup>

Illawarra had earned its last profit of \$674 in 1945. More negative results culminated in its largest loss of \$44,418 in 1950, by which time it had accumulated

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gained by interfering with these companies [NSW intrastate] which are doing their best in a difficult situation is limited to redistributing the vessels so that one or more might be brought to the North Coast." Minute from the Shipping Control Board 6/8/41, Vol.7, Minutes of Cabinet Meeting, 6 August 1941, Agenda Item 710. CRS A2697 NAA.

<sup>100</sup> For instance, the Act's Division 2 did not authorise the Australian Shipping Board to enter intrastate trades, and unless they wanted licences to engage in the interstate coastal trades, the intrastate companies would escape the requirement to build in Australia. Nevertheless the Government could probably have prevented them constructing ships overseas by prohibiting their importation under the *Customs Act*.

<sup>101</sup> Short passages exposed intrastate shipping frequently to the campaigns of the WWF that worked under a Federal Award. These companies therefore often suffered from disputes that occurred outside state borders to which they could make little response. Mike Richards, *The North Coast Run*, Turton and Armstrong, undated, p. 151, and Ronald Parsons, *Steamships to the Illawarra*, Ronald Parsons, 1991, describe the effects on the North Coast and South Coast companies respectively of waterfront strikes.

<sup>102</sup> "The rivers to which the company was still trading required considerable dredging ... and this was repeatedly brought before the Government department concerned. However, very little improvement was made." M. Richards. *The North Coast Run*. op. cit. p.150.

<sup>103</sup> *The SMH* 27/6/50. In 1948 Newcastle and Hunter also reported a loss of \$84,356, the first in 30 years and the worst in its 57 years' existence, while North Coast's profit of \$24,514 was also its lowest in 30 years. General Letter 9/48, MH, Sydney, to AUSN, London, 15/10/48. ML. MSS. 4548 151/361.

losses of \$124,608.<sup>104</sup> Thus, in its Annual Report for 1951 directors recommended the company sell its ships and go in to voluntary liquidation, stating,

We were not relieved of price control until August 1950 and road and rail competition made it impossible to increase our freight rates to an extent sufficient to absorb rising costs and continue trading at a profit.<sup>105</sup>

Representations to the state government resulted in freight rates being increased on the competing road/rail service, but the end of the company was inevitable. Illawarra's three remaining ships were sold to a consortium of south coast timber mills in October 1951, but continued under Illawarra management until road and rail completely absorbed the trade.<sup>106</sup> The company finally wound up its affairs in 1952, with shareholders receiving \$2.10 for their \$2 shares. North Coast sustained the first loss in its one hundred year history during 1952-1953 and paid no dividend, blaming labour problems, new roads facilitating competition by trucking and unfair rail competition.<sup>107</sup> A general meeting of shareholders in Sydney on 18 February 1954 considered a review of the business and its future by its accountants, and "almost unanimously" decided to liquidate the company voluntarily, closing its books on 12 March.<sup>108</sup> At the end of March the fleet was offered for sale and soon sold, mainly to foreign owners for trade between the Pacific Islands and Australia. On liquidation in October 1954 shareholders received \$4.25 for their \$2 shares.<sup>109</sup> The local newspaper's leader reflected the regret of country users at the services' termination, attributing it to "A shameful neglect of navigation channels, a Government sponsored price cutting competition from the railways and a constant and crippling harassment by labour unions ..."<sup>110</sup>

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<sup>104</sup> *The Age* 15/6/51.

<sup>105</sup> *Annual Report* of the Illawarra & South Coast Steam Navigation Company Limited for 1950-51. *The SMH* 27/6/51.

<sup>106</sup> It was sold to Lumber Operators of N.S.W. P/L, a consortium of timber companies. Illawarra's decline had commenced with the loss to railways of much of its timber trade during wartime interruption of shipping services. *The Daily Telegraph* 17/10/51.

<sup>107</sup> General Letter 11/53, MH, Sydney, to AUSN, London, 5/8/53. ML. MSS. 4548, 153/361. The reason for the loss was a marked decline in timber, sugar and general cargoes, due to the railways granting bulk loading contracts at 50% below ordinary rail rates. Mike Richards, *North Coast Run*, op. cit. p. 152.

<sup>108</sup> North Coast Steam Navigation Company Limited, Company Minute Book. ML. MSS 323 21(21).

<sup>109</sup> *The Daily Commercial and Shipping News (DCN)* 29/3/54.

<sup>110</sup> *The Macleay Argus*, Kempsey, January 1954 issue.

The effects of labour anarchy, the state government's neglect of waterways and competition from railway and road transport can be seen in the intrastate companies' annual profits listed in Table 6.4.<sup>111</sup>

**Table 6.4**  
**Net Profits of N.S.W. Intrastate Companies (\$'s) from 1946**

<b>Year End 30 June</b>	<b>N.Prof/Div % North Coast</b>	<b>N.Prof/Div % Illawarra</b>	<b>N.Prof/Div % N'castle/Hunter</b>
1946	54,030/6.0	(11,938)/5.0	31,558/5.0
1947	59,470/6.0	(11,750)/5.0	10,230/5.0
1948	24,514/6.0	(13,894)/nil	(84,356)/nil
1949	54,660/6.0	(12,212)/nil	(16,086)/nil
1950	54,364/6.0	(44,418)/nil	24,906/2.5
1951	53,964/6.0	(44,090)	7,660/2.5
1952	54,360/6.0	(7,380)	12,142/4.0
1953	(42,820)/nil	n.a	10,514/3.5
1954	n.a	n.a	17,740/5.0
1955	n.a	n.a	(9,130)/nil
1956	n.a	n.a	4,042/1.25

**Sources:** ML MSS 4548, *SMH* and *Daily Telegraph*, relevant years. Illawarra ceased trading in 1952, North Coast in 1954

In July 1953, Newcastle and Hunter announced suspension of its service of sixty years between Newcastle and Sydney because of high operating costs.<sup>112</sup> In November it announced its failure to renegotiate its contract to lift cargo for the State Railways between these ports.<sup>113</sup> The following May it sold one of its three ships, and soon ended the charter of another.<sup>114</sup> The remaining vessel switched to interstate trades, mainly between New South Wales and Tasmania. After an Extraordinary General Meeting in August 1956, at which shareholders voted to quit the Hunter River trade and expand operations interstate, the company operated for several more years as the Southern Shipping Company Limited.<sup>115</sup> By 1957, ten

<sup>111</sup> Mike Richards, *The North Coast Run* op. cit. p. 152 and *The Macleay Argus*, Kempsey, January 1954.

<sup>112</sup> General Letter 10/53, MH, Sydney, to AUSN, London, 12/1/53. ML. MSS 4548 153/361.

<sup>113</sup> General Letter 16/53, MH, Sydney, to AUSN, London, 1/11/53. ML. MSS 4548, 153/361.

<sup>114</sup> General Letter 10/54, MH, Sydney, to AUSN, London, 25/5/54. ML. MSS 4548 153/361.

<sup>115</sup> Barry Pemberton, *Australian Coastal Shipping*, op. cit. p.80.

'60milers' carrying coal from the Hunter Valley mines to supply Sydney's power and a small vessel carrying blue metal for road work from Shoalhaven to Sydney constituted the remains of the New South Wales intrastate trades. The companies operating them were, therefore, the shipping industry's first casualties to post-war conditions.

There were signs as early as 1939 that trucks were penetrating the South Australian intrastate trades that had been provided by the ships of Adelaide and of its wholly owned subsidiary Coast Steamships Proprietary Limited (Coast).<sup>116</sup> By 1948 the Chairman of Adelaide thus defined the effects on Coast of labour disruption and competition:

... it is with regret that I tell you that the results in the local trades have been extremely unsatisfactory for some time past. The ships under present circumstances are working to capacity but are still making very substantial losses. Increased revenue is necessary if the ships are to continue running in their present trades.<sup>117</sup>

Coast's post-war response to increasing competition from road and rail was no more effective than that of the New South Wales companies and by 1951 it was experiencing similar difficulties.<sup>118</sup> That Coast was ailing due to intensifying land transport competition was apparent from remarks by Adelaide's chairman at successive Annual General Meetings, and from the progressive contraction of its services, including withdrawal of one of its two remaining passenger vessels from service in 1955.<sup>119</sup> In 1957 Coast's the last passenger vessel was withdrawn and sold, as better roads were built, making transit between Adelaide and the small Spencer Gulf ports they served more accessible to road passengers and freight. *Troubridge*, Adelaide's new vessel for the Kangaroo Island service, began operating in 1961, but after continuing losses was first subsidised, then acquired by the state government. Coast's remaining cargo vessels were progressively sold off and the company was

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<sup>116</sup> M. Page, *Fitted for the Voyage*, op. cit. p. 241.

<sup>117</sup> Address by Adelaide's Chairman at Annual General Meeting, 27/9/48. The Adelaide Steamship Company Limited, Annual Report for 1948.

<sup>118</sup> In his address to shareholders at Adelaide's 1951 Annual General Meeting, its Chairman commented, "Your Spencer Gulf fleet... is contending with serious competition from road and rail transport." Adelaide's company papers, p. 160. Z135, NGB.

<sup>119</sup> In 1952 Adelaide's Chairman told shareholders at its Annual General Meeting, "For some years our Gulf services have been unremunerative ... Further contraction of services may be unavoidable." The Adelaide Steamship Company Limited, Chairman's address, Annual General Meeting, 29/9/52, p. 169. Z535, NGB.

Again, in 1955 he told them, "As forecast last year owing to further diminution of our trade in the Spencer Gulf *Moonta* was withdrawn from Services." The Adelaide Steamship Company Limited, chairman's address, Annual General Meeting, 19/9/55. p. 189, Z535, NGB.

wound up in 1967. Thereafter South Australia's intrastate services were entirely performed by some small ketches, Adelaide, and its wholly-owned subsidiary, Coast.

In post-war Queensland the intrastate services of John Burke Limited (Burke) to Thursday Island and North Queensland mission stations were subsidised by the state's government. The other routes were protected from land competition by the absence of road and rail links to many of the remote places it served and from most of the industrial disruption besetting other intrastate companies because of the absence of WWF labour from these ports. The company thus achieved modest profits except in 1951, although the loss was reversed the following year by freight increases. In 1964 it lost the \$60,000 annual subsidy for its passenger service between Queensland ports and Thursday Island. Surrendering thereafter to land competition, Burke ceased its general cargo service between Brisbane and ports south to Melbourne in 1964, and the route was taken over by ANL. In 1965 Burke resumed a one-ship service between Brisbane and Cairns with an annual subsidy of \$34,000 from the Queensland government and operated until 1968, when the company was acquired by the Honolulu-based Dillingham Corporation.<sup>120</sup>

The sole instance of increased opportunities for intrastate shipping was the transport of equipment and housing materials following expansion of mining and other activity in Australia's North-West. This prompted the Western Australian State Shipping Service (WASSS), in its role of development facilitator, to double its fleet between 1948 and 1949 from the two vessels it operated in 1945, by chartering two 'D' class vessels from the Government's construction programme to provide the extra passenger and cargo services needed.

The purpose of Western Australia's State Shipping Service (WASSS) was to assist the development of the state's North-West by improving communications between places poorly served by other transport. With its future independent of profitability or having to resist competition, it set about performing its function from 1946 by extending its passenger and cargo services to additional ports to service the region's growing mining industry and its population. Thus, alone among the intrastate trades, those of WASSS prospered and by 1956 its fleet had expanded to seven vessels by purchase and construction. WASSS suffered the same effects from increases in wages and disruption of operations by labour disturbances as other

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<sup>120</sup> *The AFR* 30/8/68.

shipping, but these were irrelevant to its virtual status as a public utility and it continued to trade unprofitably; the losses it had incurred since inception accumulated to \$13 millions by 1956.<sup>121</sup> The Government's decision in 1960 to allow iron ore exports increased the demand for shipping to carry mining equipment and building materials to the Pilbara region. To meet this, WASSS acquired three more passenger ships, modified two others to increase its annual passenger capacity to 4,500, and replaced two old vessels with modern units. This opportunity for expansion was unique among the intrastate traders. Nevertheless, WASSS remained unprofitable throughout its existence, in spite of ongoing unsuccessful attempts to reduce its losses.<sup>122</sup>

### **Competitive Forces and the Interstate Trades**

The explanatory framework of Chapter Four identified six forces as the proximate causes of shippings' post-war decline. By 1950 four of these had emerged: Government presence and policies, restrictions on supplies of ships and labour, competition from substitutes and rivalry. With the change of Government in 1949, the impact of these four forces on the profitability of the independent shipowners also changed. The Government eased restrictions on labour and the acquisition of new ships, but increased its funding for shipping's substitutes, created the ANL and supported its rivalry to the private companies. Notwithstanding the relaxations, access to new tonnage was still not subject to market conditions and the partial deregulation of labour supply had little impact on its increasing costs that weakened shipping's competitiveness with its substitutes. Thus, as with intrastate shipping, competition from road and rail came to have the strongest adverse effect on interstate shipping's profitability as it tried to take advantage of buoyant demand for shipping services.

The expanding freight market for general cargo noted by the AUSN's correspondent at the beginning of 1950 continued while the private owners and Government debated the future of the Commonwealth's fleet. However, it was BHP's phenomenal post-war expansion that led post-war interstate shipping in the steady

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<sup>121</sup> Report of Western Australian Treasurer, Financial Papers of Western Australian Parliament 30/6/57, Western Australian State Records Office (WASRO).

<sup>122</sup> In 1961 ANL's Chairman, Captain J. P. Williams, was engaged to report privately on how WASSS's losses could be reduced. File 621, Volume 2, WASRO. One recommendation was to abandon calls at Onslow. File 5253, 506, Volume 3, WASRO. In 1965 WASSS announced a round-Australia service northwards from Fremantle to obtain cargo from the Eastern states to Western Australia..

growth of providing services to the mining and manufacturing industries that gradually became its major task.<sup>123</sup>

Notwithstanding the decline in its fleet's productivity that was common to all companies, BHP itself developed one of the few new shipping trades of the years between 1945 and 1949. This followed the company's announcement in late 1945 of a capital expenditure of \$14 millions on expansion and new projects, one of which was the opening up of its Western Australian iron ore deposits at Yampi Sound, providing long-haul bulk cargoes. Between 1950 and 1956 the centrepiece of BHP's development was the expansion of steel-making facilities at Port Kembla that included the construction of a new harbour and a new flat products mill. Associated with these developments was increased output from the company's mines of bulk raw materials to be shipped out for steel production that in turn generated further cargoes of manufactured products for distribution.<sup>124</sup> By 1955 BHP had increased its ore production at Iron Monarch to 2.9 million tons per annum and opened a new limestone quarry at Rapid Bay in South Australia. Planned increases in the distributive task included the shipment to South Australia of steel coil from the new mill at Port Kembla for the manufacture of motor vehicles and white goods from the new mill at Port Kembla, and dispersion to population centres of the finished products. Meanwhile, in return for an undertaking to build a steel rolling mill at Kwinana that increased steel shipments, negotiations between BHP and the government of Western Australia had secured the company increased mining rights over the iron ore deposits in Yampi Sound to complement the one million tons already shipped annually from Cockatoo Island.<sup>125</sup>

Exploration had also established the presence of large reserves of high-grade bauxite on the eastern and western shores of the Gulf of Carpentaria.<sup>126</sup> The western

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<sup>123</sup> Between 1951 and 1959 BHP's output of pig iron increased from 1.3 to 2.7 million tons, ingot steel from 1.4 to 3.5 million tons and blooms and billets from 1.3 to 3.2 million tons. Apart from the task created for shipping of carrying the raw materials needed for this expansion of steel making, ships also distributed much of the production to major cities for manufacture of consumer goods. The Australian Industries Development Association, *Development in Australia: Review Compiled for International Industrial Conference*, San Francisco, 11-15 September 1961, op.cit.p. 23-24.

<sup>124</sup> Australian steel consumption rose from 285 to 725 pounds per head between 1946 and 1956 and BHP's ingot production from 1.3 to 2 million tons per annum between 1951 and 1954. D. Sawyer, *Australians in Company: The Broken Hill Proprietary Company Limited in its One Hundredth Year*, BHP Ltd, Melbourne, 1985, p.2.

<sup>125</sup> Ibid. p.9.

<sup>126</sup> Bauxite was discovered at Gove, N.T., in 1952, and in 1955 at Weipa, Qld, where mining commenced in 1963. Department of Trade and Resources, *Australia's Mineral Resources: bauxite/alumina/aluminium*, AGPS, Canberra, 1980, p.2.

deposits were to be refined on site for export as alumina, but the eastern deposits promised a future new trade for shipping, producing cargoes of bulk bauxite to go from Weipa to the large alumina refinery being constructed for its processing at Gladstone.<sup>127</sup>

Meanwhile the ASO companies had continued since the end of the war to service some minor bulk trades in which its members had interests; they also sometimes carried cargoes for BHP.<sup>128</sup> They had also continued their major bulk trade, shipment of coal to interstate destinations, especially Melbourne, from the mines of New South Wales in which the individual companies had substantial interests.<sup>129</sup> Then in the mid-1950's Victoria began to use its own brown coal deposits in the state's power stations and the trade was eventually extinguished. The substitution of oil for coal as the fuel of ships and industry also ultimately ended the coal trade to other ports.<sup>130</sup> While their hopes of regaining their general cargo trades were unfulfilled and worsening, BHP's trades and the growth of other bulk trades presented the best prospects between 1957 and 1964 for employment and development of Australian shipping generally, including the ASO's ships. However, as one owner wrote:

...we [ASO] have been completely displaced by the ANL and BHP tonnage and the latter company has drawn attention to the fact that no ASO vessels are engaged in the carriage of ironstone.<sup>131</sup>

BHP had invited the ASO several times to provide ships on a permanent basis for its rapidly expanding bulk trades that would have compensated for some of its general cargo losses and diluted the ANL's relationship with BHP.<sup>132</sup> In 1957 a committee that reviewed ASO's trades recommended the invitation be accepted so in May 1958 the group formed Bulkships Limited (Bulkships), which in January 1959 ordered two

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<sup>127</sup> The Gladstone refinery of Queensland Alumina Limited (QAL) opened in 1967. Geoffrey Blainey *The Rush That Never Ended*, MUP, Melbourne, 1993, p.333.

<sup>128</sup> Gypsum, salt and sugar (both Adelaide and Smith had sugar interests) provided other bulk cargoes. ASOF. Circular F.35, 8/2/47 E 127/122 NGB.

<sup>129</sup> Imports of New South Wales' coal to Melbourne approximated to one million tons annually. Port of Melbourne Authority, *Annual Report for 1954*. p.16.

<sup>130</sup> The ASO lost its coal trade to South Australia in 1955.

<sup>131</sup> Letter Secretary MH, Sydney, to Secretary, AUSN London, 14/11/57. ML, MSS 4548, 157/361.

<sup>132</sup> At least one ASO member illogically blamed their absence from these trades on " ... the vacillating attitude of the government when negotiating for the sale of the government ships." General Letter 21/57, MH, Sydney, to AUSN, London, 15/2/57. ML, MSS 4548 157/361.

ore carriers for employment on a voyage-by-voyage basis in BHP's bulk trades.<sup>133</sup> Significantly, in view of later events, all members except Smith participated, contributing equity and taking debentures in accordance with their ASO pool points.<sup>134</sup> However, as several years elapsed until the ships were ready, the additional shipping capacity needed was supplied by the ANL and by BHP itself.<sup>135</sup> As BHP's demand for shipping continued to increase it acquired four more bulk carriers and a steel products vessel for its own fleet between 1957 and 1964 in addition to the extra vessels it chartered from ANL and Bulkships.

After taking office, the new Coalition Government progressively mitigated some of the effects of its predecessor's policies restricting the supply of ships and labour but made clear to the ASO that support for Australian shipyards would have to be maintained.<sup>136</sup> Controls were, therefore, relaxed to require construction in Australia only if a vessel was unprocurable overseas, or if a subsidy of 25% would reduce the domestic price to parity with overseas.<sup>137</sup> Labour controls were also relaxed with the winding up of the MIC in 1952, so removing a barrier between shipowners and their crews and returning responsibility for industrial affairs to the Arbitration system, although the ASIB retained regulation of the supply of wharf labour. Meanwhile, during the six years the shipowners were negotiating with the Government for acquisition of its fleet and considering entering BHP's bulk trades, matters had gone from bad to worse in their general cargo trades. They were now experiencing the effects of competition from substitutes, industry rivalry and the remaining restrictions on supply of ships and labour.

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<sup>133</sup> The ore carriers *Wollongong* and *Mittagong* of 16,785 tons deadweight were not completed until 1962 and 1963 respectively, Department of Shipping and Transport, *Australian Shipping and Shipbuilding 1966*, AGPS, Melbourne, 1966.

<sup>134</sup> The other ASO companies learnt of Smith's disinterest in September 1958. Minutes of ASO meeting 1536, 9/9/58. Z535, Box 17, NGB. In 1961 the AUSN also relinquished its shareholding in Bulkships. Letter Farrell, AUSN, Sydney, to Secretary, AUSN, London 24/4/61. ML. MSS 4548, 280/361. Apparently these companies withdrew because BHP would not enter into a long-term charter for the vessels. Letter Secretary, MH, Sydney, to Secretary, AUSN, London, 27/11/57. ML. MSS 4548 157/361.

<sup>135</sup> To bridge the period until their vessels were ready Bulkships asked the ANL to sell them two of its successful *Lake* class, a request that not surprisingly was rejected, notwithstanding the ASO's appeal to the Prime Minister. Minutes of ACSC Meeting 11, 13/8/57. NAA B5755.

<sup>136</sup> The First Assistant Secretary of the Department of Shipping and Transport wrote to ASO in January 1950 asking its members how many new ships they intended to build to support the industry. ML. MS 4548 205/361. Support for shipbuilding was confirmed as Government policy following Menzies' Submission 18A to Cabinet of 15/10/51. A4933 Volume 29, NAA.

<sup>137</sup> This relaxation of policy and commitment to a 25% building subsidy were established by the Prime Minister's Cabinet Submission 18A, 15/10/51. A493 Volume 29, NAA.

The shippers of light general cargo that were the private owners' most treasured clients were attracted to road transport by its reliability, convenience of door-to-door service that minimised handling and pilferage and flexibility. These qualities complemented the development of the freight forwarder, a contractor whose charge included all transport costs and insurance against all loss and damage of goods in transit from their point of origin to destination on a single freight note.<sup>138</sup> The system enabled the contractor to employ a diversity of carriers and transport modes en route taking advantage of any concessions offering.<sup>139</sup> By the early 1950's modernisation of the railways' rolling stock and conversion of their engines to diesel was well advanced. In the meantime railways had also lost cargo to road so with the benefit of their new, efficient equipment they began attempts to regain their clients and attract new ones. Although still disadvantaged in interstate trades by breaks of track gauge (except between Queensland and New South Wales), they could offer door-to-door services and competitive freight rates that won cargo from shipping on parallel routes, especially the intrastate trades.<sup>140</sup> Road responded to rail's competition by cutting freight rates and a freight rate war developed that attracted more of shipping's cargo.<sup>141</sup> Both smarting from road competition, a degree of affinity developed between rail and shipping but, unable to participate in their price war because of its rising costs, shipping only lost more of its cargoes to one land mode or the other.<sup>142</sup> The extent of the loss of its general cargo trade between Sydney and

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<sup>138</sup> The popularity of trucks with freight forwarders is evident from the increase in the share of road haulage in Australian interstate general cargo shipped by freight forwarders from 5% in 1950 to 67% by 1967. P. J. Rimmer, *Freight Forwarding in Australia*, op. cit. p.2. The rise in national commercial vehicle registrations from 258,025 in 1939 to 501,721 in 1950 illustrates the growing popularity of trucking, especially as many of the vehicles registered in 1950 were the larger war surplus vehicles. Australian Bureau of Statistics, *Commonwealth Year Book, 1952-53*, AGPS, Canberra, 1954 p. 169.

<sup>139</sup> This system was developed by the railways to counter road competition. P. J. Rimmer, *Freight Forwarding in Australia*, op. cit. p.10.

<sup>140</sup> Until 1962, these were the only states linked by standard gauge. Department of Transport, *Tracks to the Nation*, Department of Transport, AGPS, Canberra, 1995, p.5.

<sup>141</sup> Addressing the annual conference of the Australian Road Transport Federation, the Premier of New South Wales said, "The government won't run away from competition. ... You [road hauliers] are only interested in lucrative cargoes. You ... only want the cream, but we are not satisfied with the residue." *Daily Telegraph*, 11/10/55.

<sup>142</sup> In a meeting with ASO, the Victorian Railways Commissioner said he would always confer with shipping regarding freight rates, but had to act to arrest the loss to road transport of between 700 and 800 tons of cargo weekly between Sydney and Melbourne. General Letter 8/53, MH, Sydney to AUSN, London, 23/6/53. ML. MSS 4548, 153/361.

Melbourne was made clear by a 1956 ASO survey, the results of which appear in Table 6.5.<sup>143</sup>

Table 6.5

**Coastal General Cargo (tons) Loaded and Discharged in Sydney, 1953-1955**

Year	Inwards	Outwards	Total
1953	260,662	270,669	531,331
1954	239,343	268,668	526,011
1955	172,932	223,379	396,311

Source: ASO Memorandum, 2/10/56. ML. MSS 4548 18/361

The ASO attributed its cargo losses to road to the Hughes and Vale decision:<sup>144</sup>

The statement [review] to which we have referred shows a marked decrease in the year 1955 and we think this can be attributed to the unrestricted road competition arising from the decision ... in the Hughes and Vale case.<sup>145</sup>

Table 6.6

**Estimated Annual Loss of Cargo ex Sydney to Road and Rail, 1950-1956**

Sydney to:	Tons Weight	Tons Meas't
Melbourne	98,225	187,000
Adelaide	31,110	66,150
Fremantle	3,500	19,700
Brisbane	38,250	83,400
Maryborough	500	1,000
Rockhampton	150	2,300
<b>Totals</b>	<b>171,735</b>	<b>359,550</b>

Source: ASO Memorandum, 4/8/56. ML. MSS 4548 18/361

Table 6.6 shows the results of a wider ASO investigation into the decline of general cargo in trades between Sydney and several major ports.<sup>146</sup>

<sup>143</sup> An indication of the popularity of road transport is provided by the increase in the total number of commercial vehicles registered from 579,444 in 1952-53 to 706,721 in 1956-57. Australian Bureau of Statistics, *Year Book of the Commonwealth of Australia 1958-59*, AGPS, Canberra, p. 411.

<sup>144</sup> The 1954 decision of the Privy Council in the Hughes and Vale case that the state governments were *ultra vires* in taxing road transport provided a substantial boost for road hauliers even though they were still able to charge for wear and tear on roads. For example for goods carried between Sydney and Melbourne the the previous rail protection tax of \$11 per ton was reduced to \$1.50 per ton for wear and tear by the decision. P.J.Rimmer. *Freight Forwarding in Australia*. op. cit. p10, 11

<sup>145</sup> Letter from Farrell, AUSN, Sydney to MH, Melbourne office, 27/1/50, attaching review of decline in general cargo passing through Sydney. ML. MSS 4548 18/361.

ASO's freight representatives later visited 89 of land transport's clients to inquire why they preferred these modes. They cited regularity of dispatch, continuity of service, door-to-door pick up and delivery, savings in charges such as packing and insurance, less damage and pillage, and freight rates comparable with those of shipping.<sup>147</sup> The investigators also interviewed thirteen freight forwarding agents and were told they had recently requested the railways for increases in the concession rates for full truckloads they were receiving and "... are confident these will be granted resulting in further profit to themselves."<sup>148</sup>

By 1964, general cargo trades retained by private conventional vessels had been reduced to those inaccessible to land transport or where its infrastructures were inadequate. The most important of these were trades between the mainland and Tasmania, the ASO's long distance trades to Western Australia and those of WASSS to that state's north-west.

**Table 6.7**  
**General Cargo Loaded and Discharged by Waterside Workers,**  
**Capital Ports (tons '000), 1956/57-1963/64**

Year	Brisbane	Sydney	Melb'ne	P. Adel	F'tle	Hobart
1956/57	319	732	805	343	412	285
1957/58	290	658	728	324	349	248
1958/59	259	621	752	384	245	248
1959/60	263	550	687	292	309	266
1960/61	162	400	422	180	250	247
1960/62	137	320	416	102	228	205
1962/63	109	296	433	83	257	196
1963/64	111	285	499	69	298	172

Source: Australian Stevedoring Industry Authority, *Annual Reports*, relevant years.

Table 6.7, which lists the annual total tonnages of sea-borne general cargo loaded and discharged in capital cities between 1957 and 1964, provides a broader

<sup>146</sup> The ability of state railways to engage in cost-cutting was also enhanced by the grants, subsidies and deficit funding totalling \$62.7 and \$48 millions for the years 1953 and 1954 that they received from their respective state governments. Australian Transport Advisory Council 1956 Business Paper, *The Costs of Transport in Australia*. op. cit. Table 10, p.23.

<sup>147</sup> ASO memorandum 2/7/56. ML. MSS 4548 18/361.

<sup>148</sup> Ibid.

indication of the continuing losses to road and rail of shipping's general cargoes.<sup>149</sup> The large reduction in seaborne general cargo between Sydney and Melbourne from its 1958/59 levels probably reflects the opening of the standard gauge rail line in 1962.

In 1957 road hauliers presented a High Court challenge to the Victorian government's legislation that imposed a mileage tax on interstate road transport. Their grounds were that it contravened section 92 of the Constitution, but it was decided by the Court in favour of the government. Interstate shipowners thereupon became optimistic that government intervention in transport would for once work in its favour and its ability to compete with road transport would improve if, like New South Wales, other states followed Victoria's lead and taxed interstate trucks.<sup>150</sup> Almost simultaneously the Government announced it would provide financial assistance to standardise railway gauges between New South Wales and Victoria.<sup>151</sup> This prompted the Victorian Premier to state in an address to the road hauliers' association that standardisation would reduce rail freights, and "it would then really be on with road transport."<sup>152</sup> But then, in 1959, the Government introduced its *Commonwealth Aid (Roads) Act* by which it undertook, subject to conditions, to match funds spent by state governments on road construction. Both rail and road thus benefited from state and Federal Government support, which seesawed between the two transport media. Long term, better highways would reduce road transport costs and improve transit times for the cargoes it carried, With elimination of breaks in gauge, bogey exchange or double handling of cargoes at state borders would no longer be necessary and rail costs and transit times further reduced. The effect of this financial help for shipping's substitutes further distorted allocation of cargo in favour of road and rail, making it more difficult for shipping to retain its trades. Conversely, the absence of any similar help for shipping to modernise its fleet detracted from the attractiveness of the freight rates and services it could afford to offer its clients in competition with land transport. At the end of 1956 the effect of this competition on ASO's trades was that,

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<sup>149</sup> The decline in cargo passing through Hobart was partly due to its diversion to Devonport following the introduction of the ANL's ferry service between that port and Melbourne in 1960. From 1959/60 onwards, the figures for Fremantle cargo include intrastate cargo. ASIA, *Annual Report 1960*, p. 19.

<sup>150</sup> One shipowner calculated that if New South Wales imposed a similar tax, road freight between Sydney and Melbourne would increase by \$2 per ton and by twice that amount between Melbourne and Brisbane. General Letter 18/57, MH, Sydney, to AUSN, London, 7/9/57. ML. MSS 4548, 154/361.

<sup>151</sup> Ibid.

<sup>152</sup> General Letter 23/57, MH, Sydney to AUSN, London, 23/11/57. ML. MSS 4548 154/361.

Fierce competition from road and rail which is maintained at the taxpayer's expense has ... forced the virtual withdrawal of the ASO from these services. [general cargo Sydney/ Melbourne and Adelaide/ Melbourne]. It would be necessary to reduce general cargo rates by 50% to regain certain general cargo lines.<sup>153</sup>

Competition with shipping by its substitutes was not confined to land transport. Passenger vessels were a well-patronised pre-war means of interstate transit in spite of rigours like the Australian Bight crossing and between 1950 and 1956, following their release from Government service, they regained some of their 1939 popularity.<sup>154</sup> They found themselves in competition for passengers with a growing air transport industry, and with road and rail for general cargo. At first the passenger ships attracted enough cargo and passengers to keep them operational, but the convenience of affordable air transport soon attracted more travellers than lengthy sea voyages. Thus the number of passengers choosing sea gradually declined, while those travelling by air far exceeded the vacancies in passenger ship berths, indicating that they were not only failing to attract a share of an expanding travel market, but were unable to retain their existing clientele.<sup>155</sup> By 1956, the decline in passenger numbers and the cost of maintaining the ships were strong indicators that, sooner rather than later, air transport would supplant the coastal passenger fleet.<sup>156</sup> Soon thereafter the vessels became a consistent drain on ASO's profitability, causing friction between owners and non-owners of these vessels and by the ASO meeting of 1 July 1958, its chairman was "referring with concern" to the adverse results of the remaining passenger vessels.<sup>157</sup> Other companies shared his concern, especially those that had already reduced or withdrawn their commitment to passenger vessels and resented having to contribute to the deficits of the ASO pool substantially caused by the passenger trades.<sup>158</sup> By 1960 the ASO passenger ships' popularity was waning.<sup>159</sup> Shortly thereafter, the progressive sale of the remaining passenger ships commenced

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<sup>153</sup> ASO Memorandum to principals reporting on a review of trades 7/9/56. ML. MSS 4548 18/361.

<sup>154</sup> "The demand for passages by sea is heavy and it should not be difficult to fill all berths available... even bearing in mind keen competition from airways and railways." General Letter 11/47, MH, Sydney to AUSN, London, 28/10/47. ML. MSS 4548 149/361.

<sup>155</sup> Air passenger numbers increased from 1.5 millions in 1950 to 2.125 millions in 1956-57. With the derequisition of *Kanimbla* in 1950, passenger ship berths available totalled only 2,003. Australian Bureau of Statistics, *Commonwealth Year Book Number 38*, AGPS, Canberra, 1952, p. 560.

<sup>156</sup> For instance, in 1951, the *Ormiston's* overhaul cost was \$514,000, described by its owner, the AUSN, as "a major disaster." Letter Bourne, AUSN, London, to Rickards, MH, Sydney, 4/7/52. ML. MSS 4548, 153/361.

<sup>157</sup> Minutes, ASO meeting 1531. Z535/17, NGB.

<sup>158</sup> Smith had sold its *Canberra*, in 1947, AUSN its *Ormiston* in 1955, and Adelaide its *Manunda* the following year. Barry Pemberton, *Australian Coastal Shipping*, op. cit. Appendix II.

<sup>159</sup> "Our Passenger Trade is in the Doldrums". *The AFR* 1/9/60.

and was concluded in 1961.<sup>160</sup> This reduced Australia's passenger shipping to Bass Strait ferries which carried vehicles, their drivers and a limited amount of cargo, the Western Australian services of WASSS, and Burke's service between Queensland ports and Thursday Island.<sup>161</sup>

Competition with the independent companies was not confined to its substitutes, because the ANL's remarkable rise during the years since its creation had introduced a rivalry that also depleted their share of coastal trades.

### **The ANL and Industry Rivalry**

When it was established the ANL's fleet comprised only 46 ships, compared with the total of 112 major vessels in the interstate fleets of independent private owners. As the largest and most modern fleet under single management it promised efficient delivery of more reliable services than the ageing ships of the independent owners. The Line's fleet had been handed over to the ACSC at what appears a low capitalisation. Its ownership gave access to Government funding and imparted a stronger credit rating to borrow for expansion than its private rivals.<sup>162</sup> This, therefore, promised not to be a rivalry between near-equals, inducing the classic benefits of economic efficiency and innovation. The private sector did embrace technical change but this was arguably more to meet road and rail competition than the ANL's rivalry.

After transfer and coming under its own management in January 1957, it became apparent the Line would operate more competitively than it had under the ASB and it immediately set about capturing as much business as possible from the private owners. The ANL was restricted by its Act from intrastate trade so the effects of its rivalry were felt most strongly by the interstate general cargo companies Burke, Patrick and ASO, rather than in the bulk trades in which their participation was

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<sup>160</sup> *Westralia* was sold in 1959, *Duntroon* the following year and *Kanimbla* and *Manoora* in 1961. Barry Pemberton, *Australian Coastal Shipping* op. cit. pp. 150, 151.

<sup>161</sup> Burke's service ended in 1964 with the withdrawal of the Queensland government's subsidy. Ibid. p. 95.

<sup>162</sup> The Government loan of \$30 millions to the ACSC to acquire 46 ships was low compared with the \$42.5 millions at which the fleet of 51 ships had been valued for sale to the private companies. Brogden noted the effect of Government financial strength in respect of its airline TAA. "The Prime Minister pointed out that when government went into competition with private enterprise it could make losses and survive; it could find capital." Stanley Brogden, *Australia's Two Airline Policy*, op. cit. p. 92.

minimal and selective.<sup>163</sup> The ANL occupied a strong position in the bulk trades inherited from the ASB's management of the foreign ships chartered by the Government in 1942 principally to service these trades. The relationship thereby established between the ASB and BHP proved a valuable source of cargoes for the new Line. Prior to requisition, while the ASB still controlled shipping, it directed Government vessels into the general cargo, thus establishing a foothold the ANL soon expanded. The ASB was also active in building modern tonnage, such as specialised bulk carriers and a passenger and general cargo ferry of new design for the Bass Strait trade. The ASB, therefore, took better advantage of available opportunities than the independent private shipowners and provided the ANL with a legacy of strong financial and operational positions.<sup>164</sup> The ANL declared its first results on 1 July 1957 after only four and a half months' trading, announcing an operating profit of \$2.278 millions, and paid company tax (\$0.985m) and interest to the Government of 6% (\$0.867m) on its invested capital.<sup>165</sup> A sequence of good financial results continued throughout this period.<sup>166</sup> Soon after its appointment, ANL's management commenced its own programme of capital expenditure on vessels, premises and equipment. As new vessels were delivered from the Government's shipbuilding programme, the Line sold its ships that were unsuitable or obsolescent to foreign owners at 'good prices'. That ten of ANL's new vessels were its *Lake* class bulk carriers indicates the importance of these trades to the Line. In 1957 the ANL decided to concentrate on building other vessels designed for specific cargoes. The Bass Strait Ro-Ro general cargo and passenger ferry ordered by the ASB was the first of these to enter service in 1960.<sup>167</sup> It gained instant success because of the efficiency of the

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<sup>163</sup> Division 2 of the *Australian Coastal Shipping Act* enabled the ACSC to provide shipping services between places in different states, between places in the Commonwealth and its Territories, between different Territories, between the Commonwealth and other countries and to establish services incidental to these.

<sup>164</sup> "And while the Government ships were lifting the bulk of the ironstone not carried by BHP, they were, at the same time, gaining more and more of the general cargo business." N. L. McKellar, *Derby Round to Burketown*. op. cit. p.518.

<sup>165</sup> *Ibid.* loc. cit.

<sup>166</sup> In the remaining years of the period, after paying the Treasury 6% dividend and meeting company taxation, the ANL's annual profits were \$2.51 (1958), \$1.80 (1959), \$0.63(1960), \$2.87(1961), \$2.73(1962), \$2.68(1963) and \$2.07 millions (1964). The Australian National Line, *Annual Reports Years 1957 to 1964*, inclusive.

<sup>167</sup> With this ship, the *Princess of Tasmania*, the ANL also introduced a new method of charging freight on the floor space occupied by the vehicle, with differentiation according to cargo height. ANL's chairman claimed that this would reduce rates for some cargoes by up to 50%. General Letter 8/59, MH, Sydney to AUSN, London, 20/5/59. ML. MSS 4548, 159/361.

service and the innovative basis on which it charged freight, in contrast with the private sector's reluctance to review its traditional charging practices.<sup>168</sup>

Perhaps because the ASOF's members had acquiesced in the ANL's establishment, they treated their rival with a surprising friendliness rather than resistance. For example, when the ASO considered introducing containers to their trades, its effect on the Government ships seemed of more concern than whether it would win back their cargoes from land transport.<sup>169</sup> A plan was also developed in conjunction with the ANL, but not implemented, to regain cargoes of car bodies lost to the railways by shipping them to Newcastle in vessels bringing iron ore from Whyalla, and then on-carrying the cars to Brisbane by road.<sup>170</sup> Apparently persuaded that the best strategy to meet ANL rivalry was to try to shackle it with their rules, the ASOF invited the ANL to join their group. The ANL's chairman rejected the proposal, although he believed that the Line should have a common industrial policy with the private shipowners.<sup>171</sup> Nevertheless, the ANL did accept membership of a joint traffic committee that reviewed requirements for shipping to make the best use of tonnage and avoid over-lapping services. The Line used the relationship to gain access to several trades previously serviced by the independent owners.<sup>172</sup> The ANL evidently felt itself under no obligation to reciprocate these friendly overtures because when the ASO asked it to sell them two of its successful Lake class bulk carriers while they built some of their own the request was rejected by the Line after an appeal to the Prime Minister.<sup>173</sup>

The number of vessels being delivered to the ANL by its building programme exacerbated the ASO's difficulties in keeping its fleet employed when a recession in world shipping spread to the coastal trades in 1958, forcing the lay-up of several ASO vessels. A suggestion that the ANL should bear some of the burden by laying up some of its ships was eventually accepted after several appeals to the Line's chairman.<sup>174</sup>

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<sup>168</sup> The Australian National Line, *Annual Report 1957* p.8

<sup>169</sup> Discussing the ASO committee's recommendation to introduce containers one shipowner wrote "The scheme obviously could not be applied only to ASO's ships" and suggested they consult with the ACSC before implementing it. Memorandum, Farrell, MH, Sydney to MH, Melbourne, 15/6/55. ML. MSS 4548 17/361.

<sup>170</sup> Memorandum, AUSN, Sydney. to MH, Melbourne, December 1956. ML, MSS 4548 18/361.

<sup>171</sup> The Australian Coastal Shipping Commission (ACSC), Minutes of meeting number 5, 21/3/57. B5755/1, NAA.

<sup>172</sup> N. L. McKellar, *Derby Round to Burketown*, op. cit. p.617

<sup>173</sup> Minutes of ACSC Meeting 11, 13/8/57. B5755, NAA.

<sup>174</sup> "Chairman stated that he had received a cable ... protesting at the lay up of ASO tonnage . that as the over tonnage had been brought about by the building programme of the ANL, the latter should tie up

The ANL's presence also inhibited the independent shipowners' freedom to raise freight rates at will. It was important in a commercial environment where costs were continually rising that this be promptly reflected in freight rates. Regulation of freight rates had ceased before the time of ANL's establishment and the independent companies had no obligation to seek the Minister's agreement before raising rates, but the ASO continued its former practice, perhaps believing a freight increase not matched by the ANL would lose them more cargo to their rival.<sup>175</sup> The ANL however was required to obtain Government approval to increase its charges and, although it was assiduous in lodging claims to recover its costs, these were invariably tardily and reluctantly granted while the ASO also marked time.<sup>176</sup> So a letter from AUSN's managing agent to its principal explaining that the ASO's 1959 financial loss was partly attributable to "... the delay in bringing freight rates into line with rising costs ... " evoked a terse reply from London:

I would therefore venture to suggest that ASO can no longer afford delay in bringing freight rates into line with running costs. ... I should have thought that the results of the ASO pool for 1958 and 1959 would be sufficient proof to convince all ASO members that it is quite unrealistic to continue to adhere to the policy of an approach to the Federal government for approval to increase freight rates, when such approval is invariably not forthcoming for a considerable period of time during which the coastal companies are forced to absorb increases in operating costs, usually caused by rises in the Federal Basic Wage, margins or an increase in the Government's stevedoring levy.<sup>177</sup>

Examples of the steadily mounting annual volumes of general cargo the ANL carried are plentiful, testifying to the success of its new vessels, methods and equipment in attracting cargoes away from the independent companies.<sup>178</sup> In 1964 ANL took over John Burke's long established but struggling general cargo trade from North Queensland to Sydney and Melbourne, planning to restore its profitability by introducing more efficient vessels. It also ordered two Ro-Ro vessels, larger and faster

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their vessels ...". Minutes of ASO meeting 1535 of 26/8/58. Z535/17 NGB. The ASO subsequently successfully negotiated the lay up of some ANL ships.

<sup>175</sup> For example, the freight increases recommended after an ASO review in December 1955 were not implemented until April 1956 while the Minister considered the consequences to Government of a request from ANL for similar increases. Memorandum, AUSN, Sydney to MH, Melbourne. 1/5/56. ML. MSS 4548 152/361.

<sup>176</sup> An AUSN letter expresses concerns about "The long delay [in raising freight rates] which has already occasioned serious loss to the ASO. Letter 368 from AUSN, London, to MH, Sydney, 13/8/58. ML.MSS 158/361.

<sup>177</sup> Letter 141, Secretary, AUSN, London to MH, Sydney, 14/4/60. ML. MSS 4548, 159/361.

<sup>178</sup> The volume of cargo carried by the ANL progressively increased from 4.99 to 6.05 million tons annually between 1958/59 and 1962/63. By then it was carrying 40% of all coastal cargoes. The Australian National Line, *Annual Report 1963*, p.6. A large proportion of ANL's bulk trades were BHP's cargoes, to which the ASO group would still not increase commitment.

than the Bass Strait design, for general cargo services between Brisbane and Melbourne and from Sydney and Melbourne to additional Tasmanian ports, in competition with the ASO group. Another vessel was planned to extend the trade northwards from Brisbane to Darwin.<sup>179</sup> In 1958 a special ASO meeting discussed the ANL's intention of carrying Rudder's containers from Melbourne to Port Kembla at rates between 50% and 35% of the ASO's rates from where the haulier could truck them to Sydney.<sup>180</sup> Again, in 1959 an ANL vessel loaded at Fremantle the first bauxite cargo mined in the Darling Ranges for discharge at the new Bell Bay aluminium smelter. Disappointingly for the ASO it was not approached for this important new trade, another example of the ANL's ascendancy.<sup>181</sup>

The ANL suffered the same competition from land transport as the independents but because of its ownership and equipment was able to withstand them. The Line's profitability was also sometimes a victim to its Government ownership that ignored, management's objections notwithstanding, that the Line had been established with the declared intent of operating commercially. When Britain transferred the jurisdiction of Christmas Island to Australia on 1 October 1958 it became a Commonwealth Territory and subject to the provisions of the Navigation Act that reserves cargoes between Australian ports to national flag vessels, if available. Although the terms of the Christmas Island Agreement between Australia, New Zealand and Britain required the island's phosphate rock to be carried at world charter rates, which were too low for profitable employment of ANL vessels the Minister overrode the Line's protests and offered its ships for the task.<sup>182</sup> Caught between the intransigence of the Government and that of the British Phosphate Commission (BPC) that handled Christmas Island's affairs, the ANL reluctantly provided a ship that otherwise would have been unemployed, although its losses in the phosphate trade exceeded its lay-up costs.<sup>183</sup>

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<sup>179</sup> The Australian National Line, *Annual Report 1964*.

<sup>180</sup> At a special meeting of ASO on 9/10/58 "Members viewed with concern the low rates that were being pressed by ANL ...". Minutes of ASO Meeting, 9/10/58. Z535 /17 NGB.

<sup>181</sup> The ASO principals were annoyed to discover that the shipper, Western Aluminium N.L., had not given them the opportunity to tender for the cargo, bypassing them in favour of the ANL. Letter Farrell, AUSN, Sydney to MH, Melbourne, 17/12/59. ML. MSS 4548, 21/361.

<sup>182</sup> New Zealand's protests at Government level at paying Australian costs for ANL vessels resulted in a compromise. BPC would use ANL ships at world rates, but would be given general exemption until 1961 from the Navigation Act's provisions, similar to those granted to Papua New Guinea and Nauru. Maslyn Williams & Barrie Macdonald, *The Phosphateers*, op. cit. pp.445-446.

<sup>183</sup> Minutes of ACSC meeting number 26, 17/2/59. B5755/3,NAA. The ANL's losses on the charter were estimated at \$160,000 annually after deduction of the lay-up costs which would have been

The independent Australian companies would not have serviced this unprofitable trade. However, the direction of ANL into the phosphate trade for reasons of Government policy, at charter rates that were “distinctly unprofitable”, had important implications for Australian shipping’s prospects.<sup>184</sup> The ANL was rapidly becoming the predominant force in Australian shipping. If future Governments directed the Line’s management into unprofitable operations for policy reasons to an extent that it became chronically unprofitable, the Government might withdraw from shipping. The remainder of the industry would then struggle to retain its significance to the economy in the vacuum created by the loss of such an important presence. This first example of the Government’s willingness to place policy before business principles in its shipping operations was, therefore, unwelcome for the private sector and for the ANL, because it raised concerns regarding the industry’s future viability. By 1964 the Government’s investment in the ANL had induced significant changes in the ownership of Australian shipping that are summarised in Table 6.8.

Table 6.8 shows the proportion of the national fleet owned by the private independent companies (including intrastate) had almost halved by number and reduced by two-thirds as measured by gross tonnage, reflecting the decline in private investment.<sup>185</sup>

**Table 6.8**

**Changes in Sectoral Ownership of Australian Fleet, 1946-1964**

1946	VsIs(%)	GRT(%)	1964	VsIs(%)	GRT(%)
<b>Indep.</b>	140 (81.4)	346,163 (70.5)		68 (46.9)	217,922 (26.8)
<b>Integ. &amp;c</b>	21 (12.2)	96,444 (18.7)		28 (19.3)	223,054 (27.4)
<b>Oil Co’s</b>	-	-		11 (7.6)	142,896 (17.6)
<b>Govt/ANL</b>	11(6.4)	56,084(10.8)		38(26.2)	228,941 (28.2)
<b>Totals</b>	172(100)	498,691(100)		145 (100)	812,813 (100)

Source: *Australian Shipping and Shipbuilding Statistics*, 1964, op.cit.

otherwise incurred. Minutes of ACSC meeting number 27, 24/3/ 59. B5755/3, NAA. The Minister disregarded ANL’s notification that it wished to quit the trade. Minutes of ACSC meeting number 40, 11/5/60. B 5755/4, NAA.

<sup>184</sup> The Australian National Line, *Annual Report 1959*, p.5.

<sup>185</sup> Between 1950 and 1956 the ASOF, ISOA and independent private Australian shipping companies sold 42 vessels and constructed or bought 16. The ASB’s fleet, however, sold 2 but acquired 15, mostly bulk carriers, through the Government’s shipbuilding programme. In vessel numbers, BHP’s fleet remained static with the sale of 3 existing ships and delivery of the same number of new. Barry Pemberton, *Australian Coastal Shipping* op. cit. Appendix II.

The fleets of the integrated owners had varied little in percentage of the national total by number or by carrying capacity. There had been a quadrupling in the percentage of Australian vessels owned by the Government's fleet while its carrying capacity had also almost trebled, reflecting substantial Government investment in the ANL. Although the world shipping recession between 1958 and 1961 also spread to Australia, causing the lay-up of some ships and the sale of others, ANL's record to 1964 appeared to justify the Government's decision to retain its ships.

A further and much less important rivalry in the shipping industry commenced in 1960 when two ASO members, Smith and the AUSN, withdrew from the group and began a joint general cargo service to act in "friendly competition" to the others.<sup>186</sup> This was short-lived as the AUSN ceased shipping activities shortly afterwards although a limited rivalry continued between the declining fleets of Smith and the remaining ASO members as long as they retained shipping interests. The creation of the ANL removed all uncertainty from the industry regarding the future of the Government's fleet so from 1957 the independent owners at last began more determined attempts to protect themselves from the competition of road and rail and the ANL's rivalry.

### **Private Shipping: Responses and Developments**

Between 1949 and 1964 a total of 143 Australian ships had been lost to the Australian coastal trades because of obsolescence, lack of trade or owners withdrawing from shipping. Of these 45 were owned by the ASO group, 15 by ISOA members but only 11 by the ASB.<sup>187</sup> Until the future of Government shipping had been settled with the establishment of the ANL in 1957, such response as the private owners made to their situation was largely confined to replacement of this tonnage with the few vessels it was allowed by Government policy.

Soon after the Coalition Government was elected, the Prime Minister declared as policy that "... it recognises the need to modernise the ships trading on the Australian coast."<sup>188</sup> To promote this modernisation, the Government mitigated the policies of its predecessor but remained committed to supporting the Australian

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<sup>186</sup> Minutes of ASO Meeting 1586, 6/9/60. Z535/17 NGB

<sup>187</sup> Department of Shipping and Transport, *Australian Shipping and Shipbuilding Statistics, 1956*, AGPS, Canberra, 1960.

<sup>188</sup> "The Government recognises the need to modernise ships trading on the Australian coast, to increase the size of the fleet and to make coastal transport more efficient." Cabinet Submission 16A, 15/10/51. A4933 Volume 29 NAA.

shipbuilding industry. It was now permitted to build ships overseas provided the Government agreed, from examination of the building contract, that a comparable Australian-built vessel was unobtainable more cheaply and restrictions on second-hand imported tonnage were similarly relaxed. Having acquired only four ships during the stagnation period from 1945 to 1949, the independent owners obviously needed modern ships to respond to competition from land transport and the Government fleet. By 1950 European building prices were starting to fall after the initial post-war boom while in Australia they were still increasing.<sup>189</sup> However, as talks for purchase of the Government fleet dragged on, owners missed their opportunity as by 1956 foreign order books were full and prices had increased to record levels.<sup>190</sup> The independent companies' competitiveness was price-sensitive to high building costs that would increase freight rates and reduce their competitiveness. Building in Australia as an alternative to building overseas was financially unattractive as the ASBB aimed to recoup the full cost of building, but was unable to state a final price before delivery because of rapidly escalating shipyard costs.<sup>191</sup> Shipowners also claimed the 25% subsidy for domestic construction was still insufficient to equate rising Australian costs with European prices. The claim was investigated by the Tariff Board in 1954, which recommended an increase in subsidy to 33.3 % of the Australian building price that the Government accepted in 1956. The requirement of dealing with local shipyards through the ASBB that still called tenders, selected the shipyard and negotiated any design changes with the builder still imposed delays and frustration on companies building in Australia used to conducting their own business.

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<sup>189</sup> "Whilst in the United Kingdom prices have to a great extent become stabilised and, in fact, show a tendency to fall, in Australia shipbuilding costs are continually increasing as a result of higher wages and the shorter working week both in the shipyards and in the sub-contracting industries, and as a result of increases in the cost of materials due to both causes." Letter Chairman, ASO to Minister for Supply, 1/8/50. E217/128 NGB.

<sup>190</sup> "The 'Fairplay' index of United Kingdom shipbuilding costs (taking 1938 as 100) rose to 319 in 1950 and 545 in 1956. On the basis of recent tenders received it would cost today ... it would cost over \$A42,000,000 to replace the 121,000 d.w. tons of pre-war shipping owned by Members of my Federation although the historical cost of these ships was approximately \$A4,000,000. Thus in addition to the present allowances for depreciation the enormous sum of over \$34,000,00 has to be secured from the sale of old ships and from reserves, after taxation to replace vessels that are already 20 years or more old." Submission by chairman, ASOF (undated) to the Australian Tariff Board's Shipbuilding Inquiry of 1956. E217/673 NGB.

<sup>191</sup> The shipowners' faith in Governmental involvement in shipbuilding was further reduced when the Minister let slip that the previous Government had charged shipowners \$487,500 for each of the two 'B' class vessels they had bought. As their building costs had been \$530,000 and \$480,000, their prices after 25% subsidy should have been \$397,500 and \$360,000 respectively. Letter Rickards, MH, Sydney to Campbell, AUSN, London, 3/3/50. ML. MSS 4548 152/361.

With Australian and foreign prices rising and delays in obtaining delivery from either foreign or domestic sources, the choice of building location was difficult. Nevertheless, the independent owners began belatedly to order ships and a 1956 ASOF press release reported the group had collectively ordered or acquired twenty-five vessels, new and second-hand, in the previous five years.<sup>192</sup> Of these eleven were tugs and only ten ships were for ASO owners, updated versions of those already trading and lacking innovative technology that might have assisted competition with land transport. By contrast, the ANL acquired twenty-seven new vessels between 1945 and 1964, twenty-two of which were delivered after 1956.

There are several reasons for the poor response of the ASO owners to their competitors. From 1945 to 1950 they were virtually shut out of Australian shipyards by the Government's building programme and no new licences for imports were issued. While a chance remained they might have bought the Government fleet, it was unwise to invest in ships they might not need and to divert funds perhaps required for the purchase. Another reason settlement of the issue in 1956 did not produce the required investment in modern tonnage was the cost to which new domestic and foreign construction had risen and disagreement among ASO members over the amount of the investment and types of the ships that were required.

The effective response to their competitors required of the independent companies was not only new ships but a review of the effects of Government policy on the industry, their commercial practices and cargo handling methods. The response, when it began, fell into three phases. In the first they pressed the Government to adopt an even-handed transport policy, increased their capital expenditure on new vessels, sought to improve their services, and expanded their participation in the bulk trades. This initial unity of purpose, however, was succeeded by a second phase dominated by differences of viewpoints culminating in a split in the ASO, the demise of three of its members and, finally, that of the consortium itself. In the third phase, those companies that remained committed to shipping either regrouped, or continued alone, along the new paths they had chosen.

Unable to agree on changes to their commercial practices necessary to counter road and rail competition, the ASO companies fell back on attempting to influence

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<sup>192</sup> These were by Adelaide (11, including tugs), Union (4), McIlwraith (3), Smith (3), Parker (4). *The Herald*, Melbourne, 23/8/56.

Government policy-making in their favour. Late in 1956, an ASO committee commenced preparing a submission to the Government proposing the establishment of a Transport Co-ordination Committee, aimed at reducing the benefits received by land transport as a result of Government policy. In the words of one member:

The principle we want is uncontrolled competing services. Where Government services are in competition, and where road operators are obtaining something without cost, we want them brought to an economic basis of operation.<sup>193</sup>

By early 1957 it had finished its report that cited costs incurred exclusively by shipping due Government policy such as stevedoring levies and the practice of the states of using port charges to bolster Consolidated Revenue.<sup>194</sup> It also argued that, if the benefits provided by the Government to road and rail were removed and they were required to pay the cost of services they used, cargo would flow to the most suitable medium for its transport. It concluded

In submitting our proposal to you [the Minister] it is desired to emphasise that the shipowner interests are not looking for assistance for shipping but are seeking some protection from unfair competition by considering reducing, if not eliminating, the financial help afforded by the community to railways and road transport operating between interstate ports.<sup>195</sup>

When presented to the Minister, he expressed sympathy with their case, adding that governments, Commonwealth and state, were anxious to impose equitable charges on road hauliers. However, Section 92 of the Constitution created difficulties for them, and he invited the deputation to consider how the Constitution might be amended.<sup>196</sup>

He emphasised that he

... didn't hold out much hope for cooperation from the railways as interstate haulage, for example between Melbourne and Sydney, was most lucrative compared with country services which subsidise primary production and cause deficits.<sup>197</sup>

In making their approach, the ASO members perhaps felt that they had a strong case, as a paper recently prepared for the Government's Australian Transport Advisory Committee (ATAC) by one of its Departments had demonstrated that, as shown in Table 6.9, shipping paid a greater proportion of its operating costs than its principal competitors.

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<sup>193</sup> Memorandum from MH, Sydney to ASO Chairman, 7/11/56. ML. MSS 4548 152/361.

<sup>194</sup> ASO Memorandum to Chairman 22/2/57 attaching copy of letter to Minister. ML. MSS 4548 19/361.

<sup>195</sup> Ibid.

<sup>196</sup> General Letter 15/57, MH, Sydney, to AUSN, London, 29/7/57. ML. MSS 4548 154/361. The letter states the matter had been referred to ASO's solicitors, but any advice they may have tendered did not result in Constitutional amendment.

<sup>197</sup> Ibid.

**Table 6.9**  
**Allocation Real Operating Costs Australian Transport, 1953-1954**

	Cents per Ton/Mile	Paid by User \$000's	Paid by Community \$000's
Govt. Railways	4.62	329,240 (87%)	47,146 (13%)
Shipping	1.48	98,904 (96%)	4,308 (4%)
Road	2.73	1,486,134 (93%)	113,150 (7%)

Source: Department of Shipping and Transport, Melbourne, 1955<sup>198</sup>

The ATAC paper's Conclusion (iii), that "Shipping remains the cheapest form of freight transport over longer distances", also gave the companies some hope that if the Government required their competitors to bear more of the costs of their infrastructures, at least some of the cargoes they had lost would return.<sup>199</sup> Not surprisingly, the ASO's approach to the Government was unsuccessful as, following the benefits won by road transport in the Hughes and Vale case, it was unlikely state governments would agree to any measure that inhibited them from providing support for their railways.<sup>200</sup> In another fruitless initiative, the ASOF had a case prepared seeking a range of tax concessions from the Government to assist shipping. These included the accelerated depreciation of capital investment (already allowed to the mining industry), calculation of depreciation on a vessel's replacement cost and capitalisation of survey costs.<sup>201</sup> Previously the owners had also written to the Prime Minister seeking tax relief on earnings of funds earmarked for acquiring new tonnage, if they were held in escrow until used.<sup>202</sup> The proposals were presented to the Commonwealth Committee on Taxation, but failed to win any concessions.<sup>203</sup> These approaches yielded no discernible changes in policy sought by the ASO that meanwhile had continued with more practical efforts at self-help.

<sup>198</sup> Department of Shipping and Transport, Melbourne, *The Costs of Transport in Australia*. Typescript paper prepared for 10<sup>th</sup> meeting of ATAC. op. cit. Table 3pp. 6-8, Table 48, pp.86, 87.

<sup>199</sup> Ibid. p. 107.

<sup>200</sup> Referring to the \$520 millions invested by New South Wales in upgrading its railways, its Premier stated: "The Government won't interfere with private enterprise but won't run away from competition" Address to the Australian Road Transport Federation 10/11/55. *The Daily Telegraph*, 11/11/55

<sup>201</sup> The proposals are outlined in a Letter from Danby, Wilson and Giddy, chartered accountants, to the ASOF's deputy Chairman of 19/5/53. E217/133, NGB.

<sup>202</sup> Letter of ASOF Deputy Chairman to Prime Minister 15/11/50. E217/129 NGB.

<sup>203</sup> Report to Principals from Deputy Chairman, ASOF, on meeting held with the Commonwealth Committee on Taxation 18/8/53 E 217/135, NGB.

The ASO secretariat and some members believed a major reason for the continuing loss of ASO's general cargo to land transport was the quality of its services, which would need to be improved to compete with those offered by land transport.<sup>204</sup> To address the matter, the ASO appointed a sub-committee in February 1955 to consider means of providing its clients with the door-to-door service they so clearly wanted.<sup>205</sup> It reported in 1956 that

Something will have to be evolved which has attraction for general cargo shippers, not only economically but as to the regularity of services, packaging, elimination of damage, storage and induced industrial delays.<sup>206</sup>

There were three strands to ASO's attempt to attract general cargo back to shipping: new vessels and equipment, unitisation of cargoes, and changes to its commercial practices. The committee reported in 1957 that some of these problems, for example cargo damage, lack of packaging and service irregularity, could be addressed by the increased use of containers and the introduction of door-to-door services. To provide a regular, efficient service, investment was necessary in two Ro-Ro ships equipped with trailers on which to carry containers and in construction of specialised terminals and berths.<sup>207</sup> Three options were considered that could be introduced in conjunction with new ships. That users of the service pick up goods at the source and deliver them to the destination; that shipowners provide containers which the clients would pack for the shipping company to collect and deliver to the consignee; or lastly, that the shipowners would provide containers that the shipper would pack, arranging his own transport. The latter was recommended and adopted as the preferred option.<sup>208</sup> However, it was the second option, assumption of full responsibility for the goods' collection and delivery by the shipowner, which was the closest service to that provided by land transport and, ultimately, the one that was

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<sup>204</sup> It was suggested in 1952 that the ASO should commence a door-to-door service to win back shippers but that it should be left to "the Forwarding Agents to organise." Memorandum, MH, Sydney to MH, Melbourne, 25/10/52. ML. MSS 4548 16/361.

<sup>205</sup> "Some agents offered a door to door service by sea but would prefer to pay higher rates for a prompt and reliable service." Memorandum AUSN Brisbane to ASO Sydney 17/2/54 ML. MSS 4548 16/361. Again, "Something will have to be evolved that has attractions for general cargo shippers not only economically but as to the regularity of services, packaging, elimination of damage storage and reduced industrial delays. It might even require the establishment of ancillary door to door services." ASO Memorandum to Principals 7/9/56 ML. MSS 4548 18/361.

<sup>206</sup> ASO Memorandum to members 7/9/56. ML. MSS 4548 18/361.

<sup>207</sup> Memorandum to ASO Chairman 22/7/57. The committee estimated that this system would reduce sea freight to \$10 per ton, compared with rail and road rates of \$15-\$21 per ton. ML. MSS 4548 19/361.

<sup>208</sup> Memorandum by Farrell, MH, Sydney to MH, Melbourne 15/6/55, attaching the sub-committee's report. ML. MSS 4548 17/361.

adopted. However, having decided on a course of action, the ASO procrastinated and it was several years before shipping commenced door-to-door services.<sup>209</sup> Some ASO companies were still reluctant to make the substantial capital expenditure required in vessels and terminals unless the Government's financial props supporting road and rail were removed.<sup>210</sup> Moreover, Smith, an important member of the ASO, believed that there was no time to build the new vessels and terminals, suggesting the ASO could successfully compete by adapting existing vessels to carry small containers and re-structuring freight rates.<sup>211</sup> No new ships were built and suggestions that the shipping companies themselves should enter the road haulage business to retain their cargoes were rejected.<sup>212</sup> This lack of unanimity indicated the divisions that emerged among the ASO members during negotiations for the purchase of the Government ships were still present.<sup>213</sup>

There was thus consensus in the ASO regarding the benefits of 'unitisation' but disagreement on its methodology and reluctance to invest capital. In 1958 a convention of stevedoring and shipowner representatives in Melbourne discussed how the rapidly rising labour costs of handling general cargo could be contained by consolidating it into units.<sup>214</sup> Among the methods of unitisation adopted were wire crates, boxes up to 7.5 tons weight, greater use of strapped pallets and of mechanical handling.<sup>215</sup> Initially the types of unit introduced were not too heavy to be carried in existing conventional ships after minor modifications, and handled by their cargo

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<sup>209</sup> The principal reason for the ASO's failure to act appears to have been concerns over acting independently of the Government's ACSC. *Ibid.*

<sup>210</sup> "We would not wish to invest in high cost trailer or container vessels and then have rail rates reduced." Letter, MH, Melbourne, to MH, Sydney, 15/7/57 reporting on meeting of the ASO representatives with the Minister. ML. MSS 4548 19/361.

<sup>211</sup> Smith proposed to introduce containers with Safe Working Loads (SWL) of 5 tons weight but with capacity for 7½ tons of measurement cargo at 40 cubic feet per ton. As freight would be charged by weight, a shipper could carry up to 50% more provided that the SWL was not exceeded. Letter from Chairman of Howard Smith to Chairman of ASO, 9/9/57. ML. MSS 4548 19/361.

<sup>212</sup> "I think it could be better to finance a number of road vehicles rather than incur heavy capital expenditure for the purchase of new vessels." Letter from MH, Melbourne to MH, Sydney, 29/10/51. ML. MSS 4548 15/361.

<sup>213</sup> The dangers to the ASO of a lack of cohesion had been recognised during the negotiations to purchase the Government's fleet. "I am afraid that the inability of the ASO members to act in unison has once again told against them." Letter from Bourne, Chairman of AUSN to MH, 12/6/52. ML. MSS 4548 206/361.

<sup>214</sup> A subsequent ASO investigation into the potential economies of unitisation and purpose designed ships concluded they would save seven days in ship time on a Sydney/Melbourne/Fremantle/ Brisbane voyage, allowing 18% return on capital. Report to ASO by Statistical Officer on the Profitability of Unitisation in the Western Australia General Cargo Trade, 4/12/59. ML. MSS 4548 21/36.1.

<sup>215</sup> The circular convening the meeting and setting the agenda concluded, "We cannot emphasise too strongly the importance of approaching this question with an open mind and a positive desire to make progress." ASO Circular 15/4/58 ML. MSS 4548 43/361.

equipment. The success of these measures was limited and it was soon apparent the full benefits of cargo unitisation were only attainable if integrated with purpose-built vessels in which the ASO as a group were reluctant to invest. Investment in modern tonnage was, therefore, left to individual companies and McIlwraith and Adelaide accepted the challenge. McIlwraith ordered construction of the *Kooringa*, the world's first purpose-built cellular container ship, and Adelaide the *Troubridge*, a vehicle deck ferry for the route between Adelaide and Kangaroo Island.<sup>216</sup> The private shipowners' response to competition contrasts with the ANL's that between 1957 and 1964 ordered four more vehicle deck ships for the east coast general cargo trades.<sup>217</sup>

In 1959 the ASO supplemented the examination of its fleet and trades by reviewing commercial practices in an attempt to attract more cargo. One of shipping's disadvantages was the inflexibility of its pricing policies, which applied the same freight structure to all general cargo irrespective of its value. Changes to this policy were resisted by a majority of ASO members.<sup>218</sup> For instance, a proposal to counter the flexibility of rail's practice of charging all freight by weight, by allowing shippers to choose between weight or measurement for their goods, was rejected.<sup>219</sup>

Another suggestion of quoting rates reflective of a good's value, claims experience and handling costs was also rejected.<sup>220</sup> Finally, it was agreed partially to follow rail's practice and the basis of charging freight in the Adelaide/ Brisbane trades was changed so that all cargo measuring less than 80 cubic feet per ton paid the cheaper rates for deadweight cargo.<sup>221</sup> Later in the year, ASO introduced canvassing groups to

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<sup>216</sup> McIlwraith's cellular vessel *Kooringa* commenced service in 1964 and ASC's Kangaroo Island Ro - Ro ferry *Troubridge*, in 1961. Apart from the ASO, Holyman built a container/unit load ship *William Holyman* for its trade between the mainland and Tasmania that also entered service in 1961.

<sup>217</sup> Australian National Line, *Annual Report 1964*, p.3.

<sup>218</sup> Memorandum MH Sydney to MH Melbourne 27/7/55. ML. MSS 4548 17/361.

<sup>219</sup> Shipping's charges were based on the principle that one ton avoirdupois equated to one ton measurement of 40 cubic feet. A proposal to charge all freight by deadweight irrespective of volume was discarded because shipping's stevedoring and other costs were also charged on the principles that shipping applied. Report of ASO Freight Representatives' Conference 16-18/11/55. ML. MSS 4548 17/361.

<sup>220</sup> A reduction of freight rates to attract business was also considered but rejected as "unwise." Ibid.

<sup>221</sup> The proposal had first been considered in 1955. The change of pricing policy was again accompanied with a divergence of views between Smith, which wanted all cargo charges on this basis, and the others, who only wanted to apply deadweight charges to cargo pre-packed in containers. Letter from McLeod, Howard Smith, to ASO Chairman, 7/1/59. ML. MSS 4548 21/361.

improve customer contact and belatedly began steps to introduce door-to-door services.<sup>222</sup>

While ASO and its practices were being modernised financial losses by passenger ships and the continuing loss of its general cargo trades worsened and the cartel began to crumble. In May 1959, Macdonald Hamilton notified its London principal, the AUSN, of ASO's collective debit of \$230,00 for the preceding month:

It is regrettable that trading losses continue to be sustained at such high levels and we can only trust the steps being taken ... will in conjunction with the freight increase effective 11 May ... bring beneficial results<sup>223</sup>.

Later, reporting ASO's 1959 results (a debit of \$1.25 millions) and comparing this with the 1958 results (a debit of \$ 1.016 millions), Macdonald Hamilton wrote:

It is regretted that the results for the year under review are so unfavourable as to exceed those of 1958. To some extent the delay in bringing freight rates into line with rising costs has a certain bearing on the position but the paramount factor is the need for a reduction in operating costs, particularly on the stevedoring side.<sup>224</sup>

Smith became increasingly dissatisfied with the ASO's performance and differences with the other members that began during negotiations for the purchase of the Government's fleet deepened.<sup>225</sup> The only ASO members headquartered in Sydney were Smith and the AUSN, whose support also began to waver.<sup>226</sup> Both told the ASO meeting of 6 September 1960 they were leaving the group to operate their own service between Fremantle and Sydney.<sup>227</sup> However, the rivalry was brief as the

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<sup>222</sup> "I am pleased to note that the ASO sub-committee established to work out details of a door to door service has more or less agreed in principle that it should be established." Letter Farrell, AUSN, Sydney to MH, Melbourne, 24/12/59, ML. MSS. 4548 21/361

<sup>223</sup> General letter 8/59, MH, Sydney to AUSN, London, 20/5/59. ML. MSS 4548, 159/361.

<sup>224</sup> General letter 6/60, MH, Sydney to AUSN, London, 8/4/60. ML. MSS 4548, 159/361.

<sup>225</sup> Another reason for Smith's dissatisfaction was that it had not owned passenger ships since 1947 and had a number of old cargo ships that only received low charter rates. Under the ASO agreement losses and profits were divided according to a company's pool points. As Smith held a large number of pool points, it was therefore contributing from a low charter income to the high charter rates paid by the ASO to the owners of passenger ships and the losses they incurred. N.L McKellar, *From Derby Round to Burketown*, op. cit. pp. 615-616.

<sup>226</sup> A memorandum from MH, Melbourne to MH, Sydney. of 2/2/59 notes that an "unanimous and irrevocable" decision had been taken by Smith's Board to leave the ASO unless the passenger vessels [of which Smith had none] were voluntarily withdrawn from the ASO pool. MH, Sydney, replied on 4/2/59 that AUSN would "consider its position" if Smith left. ML. MSS 4548, 21/361.

<sup>227</sup> Minutes of ASO meeting 1586, 6/9/60. The representatives of Smith and AUSN said that "... they may act as independent operators in friendly competition." The timing of their decision was, perhaps, prompted by ASO's continuing poor results from 1958 onwards which reached a monthly "Appalling all time record debit of \$369,640" in May 1960. General Letter 10/60, MH, Sydney to AUSN, London, 20/7/80. ML. MSS 4548 159/361. Both companies remained members of ASOF and CSOA.

service lost heavily and in February 1961 the AUSN ceased its shipping operations and placed its vessels on the market.<sup>228</sup>

The defections of AUSN and Smith had reduced the ASO to five members that in 1961 made another attempt to improve its efficiency.<sup>229</sup> Its functions were changed from that of a secretariat that chartered ships, organised committee meetings and promulgated their decisions, to a commercial organisation under a manager with authority to commit its members' vessels to potential charterers.<sup>230</sup> But as McKellar put it, "The new ASO scheme, in reality, would cater only for the leavings - the trade so far not captured by other forms of transport or catered for by the ANL."<sup>231</sup>

In 1961 the ASO suffered a double blow when Huddart Parker (Parker) and the Melbourne Steamship Company (Melbourne) were taken over. Parker was asset-rich, with ships, buildings, a substantial investment portfolio and collieries, which contributed to its earnings and relatively generous dividends of 14%. However, by 1959 some shareholders were dissatisfied with the management's performance.<sup>232</sup> Undervaluation of its investments coupled with shareholder dissatisfaction led ultimately to a successful takeover offer from Bitumen Oil Refineries of Australia Limited (BORAL) on 2 September 1961.<sup>233</sup> The ships and shareholdings in Bulkships of Parker and James Paterson Proprietary Limited (Paterson), a company controlled by Parker, passed to McIlwraith in November in consideration of cash and an issue of McIlwraith shares, evoking press comment that McIlwraith was further immersing

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<sup>228</sup> The decision by AUSN's London directors followed a visit to Australia by Lord Inchcape, whose family company controlled the AUSN, to "inspect his local holdings." *The Daily Telegraph* 1 February 1961. Macdonald Hamilton's Chairman said the decision to sell the ships was taken "... on the evidence of the trading over the last four months" and cited "Recent adverse weather conditions, ... insufficient waterfront labour in Sydney, Melbourne and Fremantle ... lack of co-operation by the Seamen's Union" as the reasons for the high cost of the ships which prompted their sale. *Brisbane Courier Mail*. 1 February 1961. AUSN retained an Australian presence through its Brisbane workshops.

<sup>229</sup> The five remaining were Adelaide, Huddart Parker, James Paterson, Melbourne and McIlwraith. Paterson, however, was controlled by Huddart Parker.

<sup>230</sup> The previous restrictions placed on ASO were described by its new manager. "Thus decisions were only made by committees, and in a number of cases one committee recommended to another committee which made the decision and then the ASO secretariat promulgated such a decision." Memorandum from ASO Manager to Chairman, 18/5/62. N46/714, NGB. The Memorandum contrasts ASO's procedures with the ANL's ability to give immediate answers to prospective customers regarding the availability of ships, to which it attributed ANL's success.

<sup>231</sup> N.L. McKellar, *Derby Round to Burketown*, op. cit. p. 619.

<sup>232</sup> In March and July 1959 Parker's shareholders received two circulars from a group of Melbourne shareholders criticising the company's management for continuing to invest in coal and shipping despite their poor results. The group sought election to the Board, promising to withdraw the company from both industries. Circulars to Parker Shareholders dated March 6 and 24 July, 1959. Item GP1, Box 11, M.U. Archives.

<sup>233</sup> A bid by Commercial and General Acceptance Limited on 24/8/61 was rejected. *The SMH* 30/8/61.

itself in a declining industry.<sup>234</sup> Like the other ASO companies, Melbourne had interests other than shipping, including tugs, engineering, ship repair and real estate in Melbourne, and coal. By 1961 it was from these activities, ancillary to shipping, that it derived its income, after progressively selling its vessels and reducing its capital<sup>235</sup> Melbourne had, however, taken up its 7% entitlement in Bulkships at its formation.<sup>236</sup> In 1959/60 the company's profits almost doubled and dividends increased from 8% to 12%, because of its non-shipping activities. Melbourne had now become an obvious takeover target and in October 1961 it received an offer from Adelaide Steamships.<sup>237</sup> However, later that month Adelaide was outbid by a successful offer from Smith, which thereby gained the entrance to the Melbourne towage market that it sought.<sup>238</sup>

This rationalisation reduced the ASO membership to two and, with the addition of the now independent Smith, the total of independent interstate companies to three, marking the commencement of the third phase of this period. The collapse of AUSN ended its joint venture with Smith, which then began its devolution from the general cargo trades.<sup>239</sup> Smith abandoned the remnants of its trade to the ASO's remaining members, Adelaide and McIlwraith, to whom Smith also sold Melbourne's shareholding in Bulkships. The increases in ASO's commercial responsibilities resulting from the review of its functions in 1961 met with little success in improving its profitability. With only two ASO members remaining, they faced the choice of a closer association or separation of interests and chose the former. Before the ASO's collapse, Adelaide held the largest percentage of ASO pool points and so received the largest proportion of profits, but also paid the largest part of losses.<sup>240</sup> As Adelaide's chairman pointed out to his McIlwraith counterpart, although Adelaide's fleet had declined in size, the company had contributed \$1.2 millions to the ASO's continuing

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<sup>234</sup> *The Sun-Herald* 10/9/61.

<sup>235</sup> Melbourne's last vessel, the passenger ship, *Duntroon*, had been sold in May 1960. General Letter 8/60, 23/5/60. ML. MSS 4548 159/361.

<sup>236</sup> *The SMH* 10/10/61.

<sup>237</sup> Adelaide's Chairman stated, "...many changes have taken place in Australian coastal trade in recent years and this Board feels that some rationalisation and consolidation should take place." *The SMH*, 10/10/61.

<sup>238</sup> *The SMH* 20/10/61.

<sup>239</sup> Whether because of a deliberate policy that it no longer wanted involvement with the labour and other problems associated with general cargo or not, Smith henceforth only participated in the dry and liquid bulk trades.

<sup>240</sup> Under ASO's accounting system the charter hire paid to a company for its ship was included as a voyage cost. Therefore under this arrangement, depending on the amount of hire paid, a profitable voyage could record a loss. The effect was that a company met its share of a pool loss from its charter hire. N.L. McKellar, *From Derby Round to Burketown*, op. cit. p 616.

losses since 1957/58, a situation that could not be allowed to continue.<sup>241</sup> Following discussions, Adelaide and McIlwraith agreed to solve the problems of an ASO-based association by winding it up and merging their interstate shipping interests into one company. The new company, Associated Steamships Proprietary Limited (ASP), to which McIlwraith contributed nine ships for a shareholding of 60% and Adelaide three ships, with the right to equalise its shareholding later, commenced business on 1 January 1964.<sup>242</sup> In addition to its own fleet, ASP managed that of Bulkships and six tankers brought under the Australian flag by four major oil companies.<sup>243</sup> McKellar comments:

The ASO was virtually a monopoly; it cannot be described as an oppressive monopoly, but a monopoly it was. Then there came into existence a State fleet, first operated as a Socialist venture and then continued on business lines by a Liberal administration. Did the Government Line oust the private owner or did the private owner through virtual monopoly commit commercial suicide?<sup>244</sup>

The major advances of this period occurred after the ASO's demise, so McKellar's latter alternative, the failure of independent owners to come to grips with their situation earlier, was arguably a significant factor in independent shipping's decline.

Following Smith's withdrawal, the participation of the independent owners in their traditional general cargo trades was reduced to that between Melbourne and Fremantle, in the hands of ASP's most promising asset, *Kooringa*. This vessel, the world's first purpose-designed cellular container ship, introduced a single-document, door-to-door general cargo service to the former ASO Melbourne to Fremantle route.<sup>245</sup> The ship entered service in May 1964, finding ready acceptance by shippers and providing hope that it and similar vessels might successfully compete with land transport over long distances to retain and perhaps regain some general cargo trades for shipping.

In circumstances similar to the ASO's, the existence of the ISOA ended soon afterwards. The ANL had acquired Burke's east coast service in 1964. Fellow ISOA

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<sup>241</sup> Letter from R. G. Hawker to I. Potter. 7/9/62. N46/714 NGB.

<sup>242</sup> Chairman McIlwraith to Chairman Adelaide 29/4/63. N46/714, NGB The shareholding was equalised in 1967. *Annual Report for 1967 of The Adelaide Steamship Company Limited*.

<sup>243</sup> This re-introduced to Australian shipping the concept of third party ship management, previously applied to the operation of the Government fleet prior to ANL's creation, whereby a manager assumes most of the responsibilities of the vessel's owner, except those of its commercial operation. John M. Downard, *Managing Ships*, Fairplay Publications, London, 1987, p.xi.

<sup>244</sup> N.L. McKellar, *Derby Round to Burketown*, op. cit. pp.618,619

<sup>245</sup> A. C. Boehme, 1965, 'The Kooringa Project,' *Australian Transport*, January 1965. Boehme was the Assistant General Manager of Associated Steamships Pty. Ltd.

member Patrick succumbed to land competition, abandoning its east coast passenger and general cargo trades and disposing of its ships in 1962, although it remained a stevedore and ship's agent.<sup>246</sup> Interstate sold its last vessel in 1960 after completing its charter to BHP for carriage of steel. With the decline in the Victorian coal trade. Miller sold its remaining two interstate colliers in 1959 and 1960, but continued to operate two intrastate 60-milers. With these developments, the ISOA members, considered its continuing existence unnecessary, and it was de-registered on 24 March 1965.

Among the more important of the minor companies in the general cargo trades, those of Union and Holyman between the mainland and Tasmania were insulated from road and rail competition and, therefore, thrived, with both companies introducing container ships to their routes.<sup>247</sup> Sleigh and Carpenter also continued to trade their single ships, but Australian-Oriental abandoned its trade with Japan and sold its two vessels. As the infrastructure of road and rail transport continued to improve, so did their route coverage and efficiency, and from 1957 two more intrastate companies found themselves unable to compete and ceased shipping operations.

Locked into the major businesses of their owners, the integrated companies were unaffected by competition from substitutes and ANL rivalry. They experienced the same problems with labour and fleet renewal as the interstate companies, except for BHP that had its own shipyard. In 1957 CSR built a new vessel that restored its own fleet to three, complementing the ships it chartered from Adelaide, Smith and the ANL. The BPC and Burns Philp made good their wartime losses and resumed normal trades.<sup>248</sup> BPC's replacements operated in the phosphate trade from Nauru, but it was required to keep ANL's ships in its trades with Christmas Island because of its Australian Territorial status. Post-war, Burns Philp gradually built up its fleet in the Australian coastal and Papua New Guinea trades, but was losing money on its

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<sup>246</sup> Patrick, in association with Sleigh, was alone among shipowners in commencing an interstate trucking operation to try to recapture some of the general cargo shipping had lost to road transport. General Letter 8/60, MH, Sydney to AUSN, London, 23/5/60, ML. MSS 4548 159/361. The enterprise was eventually sold.

<sup>247</sup> Union introduced the Ro-Ro Container ships *Seaway King* and *Seaway Queen* to a triangular service between Melbourne, Sydney and Hobart in 1964; the crane container vessel *William Holyman* was completed in 1961. Barry Pemberton, *Australian Shipping*, op. cit. pp. 174-176.

<sup>248</sup> One of these, the *Tri-Ellis* of 11,760 gross tons, proved to be the last vessel built by the BPC.

shipping notwithstanding the Government subsidies for its three vessels with Australian crews.<sup>249</sup>

Remarkably for a company wedded to the coal industry Miller brightened the prospects for Australian shipping by diversifying into a type of vessel new to the Australian flag. Except for the tankers of the Australian company Ampol Limited foreign flag tankers owned by major international oil companies carried coastal shipments of petroleum prior to 1963.<sup>250</sup> In the absence of independent Australian tankers that could have claimed the cargoes under the Navigation Act's provisions, these foreign ships operated under Single or Continuing Voyage Permits (CVPs and SVPs) issued by the Government. Then in 1963 Miller obtained the Government's permission to import first one, and then two more, oil tankers for the Australian register and invoked the Navigation Act to claim that the oil companies provide them with cargoes.<sup>251</sup> A counter-claim by some oil companies that the vessels were operationally deficient was not demonstrable, and the Government's insistence on Miller's vessels' employment, coupled with threats by unions to delay foreign tankers unless Miller obtained work, ensured employment for the ships.<sup>252</sup> Fearing that other Australian shipowners might follow Miller's example - import tankers and demand their employment - the oil companies responded by obtaining Government permission to register tankers of their own under the Australian flag. All companies importing tankers, including Miller, were, however, required to undertake to replace them with Australian-built tankers within an agreed time, thus providing the domestic shipbuilding industry with a volume of prospective orders.<sup>253</sup>

## **Conclusion**

Until 1945, the long-term commercial and structural weaknesses that had developed in the protected Australian shipping industry over the long-term in the absence of rivalry and competition had not been tested. By 1964, two more of the forces identified in Chapter Four's explanatory framework, industry rivalry and

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<sup>249</sup> The results of Burns Philp's shipping operations for 1962 to 1964, were losses of \$259,936 (1962), \$209,716(1963), and \$279,694 (1964) after subsidies of \$225,000, \$300,000 and \$300,000, respectively. Report by Government Inter-departmental Committee. B142/0, SC 1967/68 NAA.

<sup>250</sup> The companies using their own foreign flag tankers were the Shell Company of Australia Ltd (SCAO), Esso Australia Ltd (EAL), British Petroleum Ltd. (BP), Mobil Oil Australian Ltd. (MOA) and Caltex Australia Ltd(COA).

<sup>251</sup> By Cabinet Decisions 945 of 26/7/63 and 69 of 22/4/64, respectively. A4940/1, NAA.

<sup>252</sup> By Cabinet Decision 1053 of 7/10/63, the Government adopted a policy that all coastal oil trade be carried in Australian-built and crewed vessels. A4940/1, NAA.

<sup>253</sup> Cabinet Decision 69 of 24/2/64 on Submission 55. A 4940/1, NAA.

competition from shipping's substitutes, emerged to combine with those of Government policies and factor restrictions already present to undermine further the industry's profitability. The improvements in land transport's infrastructure and removal of restrictive state legislation gave the substitutes a new competitive edge over shipping. It was, therefore, inevitable the coastal companies would lose some of their passengers and general cargo to these competitors which were better suited to their transport than shipping. ANL rivalry introduced a force not experienced by the independent companies since the days of the Collins group. Although all shipping, including the ANL, lost cargoes to competition by road and rail, the modern ships and attractive services offered by the independent companies' new rival also won their cargoes. Perhaps most affected were the Bass Strait trades, incontestable by land transport, where Holyman and Union declined and several one- and two-ship companies, like Tasmanian Steamers and L.W. Smith, ceased trading. With the decline in its profits, Australian shipping drew closer to the time when it would not compete in the general cargo trades and, therefore, closer to its future as an adjunct to the manufacturing and mining industries on which it would rely for its cargoes. The new forces' effects were most noticeable in the diminished profitability and influence of the major independent shipowners in an industry predominantly in private hands. Significantly for shipping's future development, the comprehensive decline of its private sector was more than matched by an increase in the size and influence of the Government-owned ANL.

The private fleets, which had escaped wartime requisitioning, soon returned to their peacetime tasks of carrying the in-house cargoes of their owners and so were largely unaffected by the four forces. But the interstate sector comprising the major independent companies were subject to the full range of the forces from the end of hostilities. The policies of a more sympathetic Government eased, but did not remove restrictions on access to labour and new ships and offered to sell the private sector its fleet. Some restrictions on supply of these factors remained between 1950 and 1964 to restrict the independents' profits and their failure to buy the Government ships established the ANL as a strong rival that by 1964 dominated the industry.

Except for a minor union supplying crews to a few vessels engaged in local New South Wales' trades, all waterfront and shipboard labour used by intrastate companies came from the same pools as the interstate firms and so was subject to the same restrictions on supply as the interstate firms. The private intrastate traders built

no new vessels, so were unaffected by the Government's restrictions on shipbuilding. The New South Wales' government's failure to maintain the state's northern rivers in navigable condition contributed to North Coast's losses, providing an example of state governments' capacity to influence profitability. Short periods between port calls however made intrastate shipping especially vulnerable to the effects of labour disruption and short-haul competition from road and rail transport, the primary cause of depressed profits that preceded its demise. Precluded from intrastate trades, the ANL's rivalry pervaded all other independent private segments.

These four forces shaped the industry's profitability, changes to ownership and fleet composition between 1950 and 1964. Accurate information on the extent of their effect on the profitability of shipping operations is difficult to obtain as in companies' financial returns for these years they are generally inseparable from their other activities.<sup>254</sup>

**Table 6.10**  
**Profits (losses) of Vessels Owned by Eight Major Shipping Operators and the Australian Shipping Board, 1947-48 to 1954-55 (\$000's)**

<b>Years</b>	<b>ASB</b>	<b>Eight Private Companies</b>	<b>Totals</b>
<b>1947-48</b>	(1732)	(892)	(2,624)
<b>1948-49</b>	(1927)	(791)	(2,718)
<b>1949-50</b>	(465)	513	48
<b>1950-51</b>	(494)	293	(201)
<b>1951-52</b>	1,197	918	2,115
<b>1952-53</b>	839	452	1,291
<b>1953-54</b>	1294	1006	2300
<b>1954-55</b>	848	(799)	49
<b>Totals</b>	(440)	700	260

Source: *Report on Inquiry into the Stevedoring Industry*, CGPS, Canberra, 1957. op. cit. Appendix XI-6

<sup>254</sup> Notwithstanding their shortcomings due to the inseparability of their shipping operations from the other activities of companies of the ASO group, their annual results for the final years of this cartel have been derived from available sources and are shown in Appendix Two.

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The evidence of profits shipowners supplied to the Tait stevedoring enquiry that are reproduced in Table 6.10 are informative, as its report considered the highest level of profits in 1953-54 still too low to provide the estimated replacement cost of the private fleets engaged in the industry.<sup>255</sup> The amounts in Table 6.10 cannot, of course, be apportioned between the four forces. However, some general observations are possible. In these early days the ASB, the ANL's predecessor, was principally engaged in the bulk trades so it is mainly from their analysis that the Commonwealth Auditor General's comments on its poor performance derives.<sup>256</sup> Except for some labour disruption unrelated to factor restrictions, and competition from substitutes common to all operators, the ASB's financial results are, therefore, traceable to operation of the Government's own policies. However, all four competitive forces were felt in the interstate general cargo trades where the private companies' ships were mainly employed. In these, ASO research showed competition by substitutes and the ANL's rivalry replaced factor restrictions and Government policy as the principal causes for profitability decline.<sup>257</sup>

The profitability of Government shipping improved with the ANL's creation.

**Table 6.11**  
**ANL Annual Profits, 1957-1964 (\$000's)**

Year	\$000's	Year	\$000's
1957	2,279	1961	2,867
1958	2,510	1962	2,752
1959	1,800	1963	2,681
1960	2,629	1964	2,071

Source: ANL *Annual Reports*, relevant years

The Line's steady profits after tax and interest of Table 6.11 show the success of its modern equipment and commercial practices in countering the four forces.

<sup>255</sup> Figures submitted to the Tait Inquiry separated profits from chartered vessels from Australian-owned and crewed. The inquiry believed the experience of Australian-owned vessels to be the more important so far as costs were concerned because the costs of chartered vessels were lower than Australian-owned?? and the Government was committed to replace them with Australian flag ships as soon as possible. *The Tait Report*, op. cit. pp. 140/141

<sup>256</sup> As noted in Chapter Five, the Auditor General's 1947-48 report attributed the ASB's losses mainly to labour shortages and disputes, increased costs, inadequacy of Government-fixed freight rates to cover rising costs and use of unsuitable vessels. Again, in 1950-51 he referred to the effects of unprofitable voyages in the Commonwealth interest, excessive interest and depreciation due to high-cost Commonwealth-built vessels.

<sup>257</sup> Pages 139-148 discuss the effects of competitive forces in the interstate trades.

These contrast with the independent owners' failure to meet their challenge, leading to the ASO's collapse and winding-up of the ISOA. This change in influence and the introduction of Australian flag tankers also produced changes in the structure and ownership of the industry's fleets, summarised in Table 6.12.

Over this period the proportion of the national fleet owned by the private independent companies (including intrastate) had almost halved by number and as measured by gross tonnage had reduced by almost two-thirds, reflecting the decline in private investment in shipping. The fleets of the integrated owners had increased by one-third in number and more than doubled in carrying capacity. Table 6.12 also shows two significant changes in ownership of the Australian fleet during this period.

**Table 6.12**  
**Changes in Sectoral Ownership of Australian Fleet, 1945-1964**

1945	VsIs(%)	GRT(%)	1964	VsIs(%)	GRT(%)
<b>Indep. &amp;c</b>	140 (81.4)	346,163 (70.5)		68 (46.9)	217,922 (26.8)
<b>Integ. &amp;c</b>	21 (12.2)	96,444 (18.7)		28 (19.3)	223,054 (27.4)
<b>Oil Co's</b>	-	-		11 (7.6)	142,896 (17.6)
<b>Govt/ANL</b>	11 (6.4)	56,084 (10.8)		38 (26.2)	228,941 (28.2)
<b>Totals</b>	172(100)	516,619 (100)		145 (100)	812,813 (100)

Sources: *Australian Shipping and Shipbuilding Statistics*, 1964, op.cit.

The percentage of Australian vessels owned by the Government's fleet and its carrying capacity almost trebled, reflecting substantial Government investment in the ANL. To forestall other owners from following Miller's example and introducing their own tankers, the international oil companies placed eight of their own under the Australian flag and foreign-owned tankers became a significant proportion of the national fleet. The changes in the sectoral ownership of the Australian fleet that had occurred between 1945 and 1964 are complemented by the changes in its composition and function as illustrated by the vessel types shown in Table 6.13.

Table 6.13 shows that since 1946, when all vessels except passenger ships carried either bulk or general cargo, there had been several important changes in the fleet's function as well as in its ownership. The shipment of bulk and general cargoes was now separated and performed by purpose-designed vessels. With the introduction of tankers, dry and bulk cargo vessels now made up almost 50 % of the fleet by number. The increase of its tonnage from 516,619 to 812,813 gross tons and its lifting

capacity to more than one million tonnes by 1964 reflected the international trend to larger bulk cargo vessels.

**Table 6.13**  
**Australian Fleet by Type, 1964**

Owners	Dry Bulk	Tankers	Gen. Cargo	Passenger	Total
Private	17	-	43	4	65
Integ.	20	-	7	1	28
Oil Co's	-	14*	-		14
ANL	18	-	18	2	38
<b>Total</b>	<b>56 (38.6)**</b>	<b>14 (9.7)</b>	<b>68 (46.9)</b>	<b>7 (4.8)</b>	<b>145 (100.0)</b>

Source: *Australian Shipping and Shipbuilding Statistics*, 1964, op. cit.

Notes: \*The number of 14 tankers includes three owned by the Australian company Ampol Ltd.

\*\*Figures in parentheses indicate the proportion of the national fleet.

This chapter has argued the proximate causes of the changes in sectoral ownership, industry structure and profitability during the period were the effects of four of the explanatory framework's six forces. The forces were common to all segments of a conservative industry rendered unstable by its long-term insulation from competition and rivalry by legislation, cartels and private arrangements that deprived it of the vital commercial acuity needed to meet the challenge of these four post-war forces. But the forces' principal effects were on the independent companies that also to adhered the anachronistic ASO cartel long past its usefulness. The changes in the composition of the fleet shown in Table 6.13 are consequential to these forces, because after losing their general cargo trades, the independent owners of necessity switched to the bulk trades of BHP and other manufacturing and mining companies..

The changes illustrated in Tables 6.12 and 6.13 foretell several future developments. The increasing lifting capacity of fewer dry and liquid bulk vessels reflected not only an increased demand for this type of vessel but also an increase in productivity due to a new force, the growing introduction of technology the commercial effects of which strengthened with time. The changes also indicate that shipping's prospects of regaining its general cargo trades were diminishing and if the trend continued it was likely also to lose those remaining to land transport. This implied the ANL's best prospects lay in overseas trades and expanding its strong

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presence in the bulk trades. Such an ANL strengthening would cause a further erosion of the private companies' influence unless they also found niches in the overseas trades and the bulk trades of the integrated companies, or other mining and manufacturing interests. In either case, Australian shipping was already firmly on course to become predominantly a carrier of bulk cargoes.

## CHAPTER SEVEN

### 1965–1985: DEVITALIZATION AND REVITALIZATION

The ASO's collapse in 1964 reduced Australian shipping to an industry dominated by the ANL, several independent companies and fleets integrated with the businesses of their owners. The existing four competitive forces of shipping's explanatory framework, Government policies, substitutes and constraints on the supply of ships and labour continued to depress industry profitability and were joined by the final two forces, technology and a new class of shipping users. These affected the several industry sectors with strengths and incidence that differed from the period preceding. Competition from shipping's substitutes, strengthened by Government policy, destroyed the independent owners' last mainland general cargo trade. ANL rivalry and Government policy undermined the profitability of the ANL's independent competitors in the Bass Strait trades and all shipping suffered from the disruptive effects of restricted labour supply, especially resistance to the introduction of more efficient technology efficiency. Road and rail also made inroads into the ANL's domestic trades but its largest losses were in international trades for which Government funding philosophies had ill-prepared it to meet enhanced competition. After the independent owners' lost their general cargo trades, the profits of the remaining companies were further depressed by the bargaining strengths of the powerful manufacturing and mining companies that became shipping's principal users. The only industry segment immune to effect of these forces on profitability was that of the non-commercial integrated companies although they too incurred the costs of labour disruption, especially those related to technology. By 1981 these forces had reduced Australian shipping, especially the ANL, to a condition that prompted a concerned Government to establish the Crawford Committee with the mission of industry revitalisation. The Committee met its limited aims but without significantly improving competitiveness so, the net effect on shipping was a further decline in its importance over the period.

Chapter Seven first covers the effects of the explanatory framework's forces on the industry and then leads into an analysis of the Crawford Committee's work and the implications for the industry's future of the ANL's declining profitability.

### **Competitive Forces: Technology, Labour and Shipbuilding**

With the end of the war the real cost of shipping escalated. To improve profitability and contain freight increases shipowners overseas began to introduce the technical advances of wartime and develop others. These were directed into three broad areas intended to lift shipping productivity; improvements in vessel design, improvements in cargo handling methods and reductions in the numbers of crew and waterfront labour required. Technically more advanced vessels generally require increased capital investment in the ships themselves and often in specialised ancillary shore facilities to service them. The investment is normally undertaken in the expectation that it will improve profits by reducing voyage times and labour costs, yielding savings greater than the capital costs and attracting cargo by lowering freight rates. Lower freight rates increase shipping's competitiveness with its substitutes, unless matched by similar technical advances and reductions. Advances in marine technology are accompanied by social costs, represented in the desuetude of port facilities and loss of employment that follow their introduction. Thus the expected increase in efficiency can be thwarted in the short term by delays from strikes by labour resisting loss of employment due to the substitution of capital for their skills. If the solution requires further capital expenditure or concessions to labour, these costs must be recovered by freight rate increases. Competitiveness then decreases and a lengthy period can elapse before owners recoup the capital costs of their investment. This broadly was the fate of Australian shipping, when it introduced new technology as companies followed their overseas counterparts.

One authority has nominated the development of the large bulk carrier and unitisation of general cargoes as the two most important developments in post-war shipping.<sup>1</sup> Technical advance in Australian shipping commenced in the bulk trades with delivery to BHP in 1948 of the first of the four largest ships yet built for the coastal trades. The size produced the economies of scale needed for the viability of the iron ore deposits of Western Australia's Yampi Sound on long voyages to New South Wales.<sup>2</sup> The size of these ships was soon exceeded by BHP's 1956 order for two larger bulk carriers designed to take advantage of the planned improvements

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<sup>1</sup> M. Stopford, *Maritime Economics*, Unwin Hyman, London. p. 4.

<sup>2</sup> The *Iron Yampi* class was over one hundred feet longer and, at 12,600 tons deadweight, over twice the lifting capacity of its predecessors. Barry Pemberton *Australian Coastal Shipping*, op. cit. pp. 195-196.

to Port Kembla harbour.<sup>3</sup> In 1956 also the ANL received the first two of five innovative *Lake* class bulk carriers ordered by its predecessor the ASB, built without cargo-handling equipment of their own and designed for loading and discharge by shore equipment.<sup>4</sup> The last of the 'Lake' class was delivered in 1958. These specialised bulk vessels can be considered the forerunners of a design that gradually came to comprise the larger part of the Australian fleet as its role changed to that of a carrier of bulk cargoes.<sup>5</sup> Thereafter the phenomenal growth in BHP's steel output was the engine driving technological change in the bulk trades. As its shipping historians comment,

To BHP management in the late 1960's it must have seemed that no matter what fleet plans were conceived, the company's mushrooming interests outstripped them before they could be properly realised.<sup>6</sup>

This was reflected in the successive increase in size of each dry bulk carrier class built for BHP trades by ANL, Bulkships and BHP itself.<sup>7</sup> For example, in 1966 BHP's largest vessels, *Iron Clipper* and *Iron Cavalier*, of 35,400 tons deadweight, were surpassed by ANL's new *Darling River* of 49,4375 tons deadweight, and three sister ships were under construction, one each for BHP itself, ANL and Bulkships. By 1973 the building capacities of Australian shipyards were reached and the still larger bulk carriers needed were constructed overseas.<sup>8</sup> By 1976 BHP's fleet of owned and chartered bulk carriers included three of between 60,000 and 70,000 tonnes deadweight, and three exceeding 100,000. The trend reached its limit for the coastal trades with the delivery of two even larger vessels for a triangular route carrying iron ore from the north-west deposits to Port Kembla and then to load coal for Japan after discharge.<sup>9</sup>

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<sup>3</sup> The two 19,300 deadweight bulk carriers ordered by BHP easily surpassed the 12,300 *Iron Yampi* class as Australia's largest vessels. D.M Riley & D. Crisp, *The Iron Ships: A Maritime History of BHP 1885-199*, BHP Transport, Melbourne, 1992, p.68.

<sup>4</sup> In contrast to the BHP vessels, the ANL *Lake* class were of only 10,000 tons deadweight but imported overseas design to make them Australia's first bulk carriers designed specifically for the task. Department of Shipping and Transport, *Australian Shipping and Shipbuilding Statistics 1960*, AGPS, Canberra, 1961, p.5.

<sup>5</sup> Barry Pemberton, *Australian Coastal Shipping*, Melbourne University Press, 1979, op. cit. p. 196.

<sup>6</sup> Riley & Crisp, *The Iron Ships*, op. cit, p.82.

<sup>7</sup> Ibid. p.78. "In the 10 years to 1965, the BHP Group's equity base had expanded by five times, net profits were 4½ times higher and steel output had more than doubled."

<sup>8</sup> The *Clutha Capricorn* of 85,130 deadweight tonnes, built for the Weipa /Gladstone bauxite trade in 1973, was the largest ship ever built in Australia. Department of Shipping and Transport, *Australian Shipping and Shipbuilding 1977*, AGPS, Canberra. p.25.

<sup>9</sup> The *Iron Spencer* and *Iron Whyalla*, of 141,000 tonnes deadweight, were built in Japan in 1981.

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The size of vessels in the coastal liquid bulk trades followed a similar but less striking trend. The three product tankers imported by Miller approximated 15,000 deadweight tonnes, those built by the oil companies, as a condition of the temporary importation of their own tankers to dissuade other Australian companies from following Miller's example, ranged from 20-25,000 tonnes. The need for specialised crude oil carriers was soon recognised and by the mid-1970's four vessels between 60-70,000 tonnes deadweight had entered the coastal trades.

Technical advances in vessel design were matched by advances in loading and discharging cargoes. The conversion to bulk handling of Australian sugar cargoes was the first of such conversions successfully introduced to eliminate the use of WWF labour, although the change was not complemented by the introduction of bulk carriers to these trades until several years later.<sup>10</sup> In 1957 the ANL introduced its *North Esk* to the grain trade from the mainland to Tasmania, the first self-discharging vessel to enter the coastal trades. However, it was in the handling of general cargoes world-wide that the most spectacular developments occurred.

The streamlining of general cargo-handling by consolidating it into unit loads commenced overseas in the early post-war years. The first methods, palletisation of small general cargo like sacks and boxes and unitisation of longer items, such as steel bars and timber, into packs with slings left attached, were widely used. Then the development of containerisation in the USA during the early 1950's introduced an efficient system suited to so many categories of general cargo that its use spread rapidly. The principle of packing the multitude of items comprising these cargoes into containers of 20 tons gross weight enabled machinery to replace the labour-intensive work of manual handling. With loads thus homogenised, the containers could be rapidly loaded into, or discharged from, identical skeletal cells built into specially converted ships by crane. A variant to the system was the roll-on-roll-off vessel (Ro-Ro), whose containers were loaded and discharged on fork-lift trucks or trailers.<sup>11</sup> The introduction of cargo unitisation to Australia commenced in the mid-1950's, although eight years passed before the first cellular container ship was built for the Australian coastal trades. In 1955 the ASB ordered Australia's first Ro-Ro vessel, a passenger

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<sup>10</sup> Australian Stevedoring Industry Authority (ASIA) *Annual Report 1956*, p.13. Riley & Crisp, *The Iron Ships*, op. cit, p. 69.

<sup>11</sup> In April 1956 a converted wartime tanker left Port Newark, USA, with 58 containers on specially constructed decks. *The SMH*, 4/9/01.

and vehicle ferry intended to revitalise the unprofitable Bass Strait trade, so designed that the loaded lorries it carried could be driven direct to destination on arrival.<sup>12</sup> BHP introduced pre-slinging of its steel cargoes in 1956 and in 1958 independent shipowners also introduced small containers and crates, handled by ships' derricks, pallets and several other methods of unitisation.

However, it was *Kooringa* the cellular container vessel owned by Associated Steamships Proprietary Limited (ASP) that was the outstanding success of the early 1960's, demonstrating that if ships were specially designed to carry a specific form of unit load, the benefits of unitisation would be maximised. The vessel operated the former ASO route between Melbourne and Fremantle and its full west-bound cargoes testified to the popularity of regular door-to-door shipping services inclusive of all transport, stevedoring and insurance costs on single consignment notes it offered to shippers.<sup>13</sup> ASP decided to build on its success, and in 1967 ordered two larger and faster ships of the same type from the Whyalla shipyard of BHP.<sup>14</sup> The transition of the coastal general cargo trades was virtually completed by the construction between 1964 and 1985 of twenty-four ships designed for various types of unitised general cargoes. Shipowners' opinions differed regarding the system that optimised benefits; container vessels (cellular or Ro-Ro) or unit-load ships whose cargoes could, for example, be stowed on pallets or pre-slung. The preferences of the two major coastal general cargo carriers were made plain by ANL's construction of four more of its successful Ro-Ro vehicle deck 'Trader' class for its services to northern Tasmania, and to North Queensland.<sup>15</sup> Two more Ro-Ro unit load ships were built by the ANL

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<sup>12</sup>The construction of the *Princess of Tasmania* introduced specialisation of vessel design to Australia and the shipment of general cargo in unit loads. Barry Pemberton, *Australian Coastal Shipping*, op. cit. p. 196, p. 170.

<sup>13</sup>The Secretary of the WWF outlined the impact of *Kooringa* on waterfront employment and cargo-handling thus: "Associated Steamships Pty. Ltd introduced the first fully cellular container ship *Kooringa* on the Melbourne Fremantle run of some 2,000 miles. This vessel employs 8 waterside workers in Melbourne and 6 in Fremantle. With 4 crane drivers per shift in Melbourne, it is capable of loading and discharging 7,600 tons dead weight in 2&1/2 shifts or 80 man hours. A conventional ship of the same capacity would have required 85 men on each of 2 shifts a day for 5 days to have discharged and loaded it, or 5,900 man hours." C.H. FitzGibbon, *Technological Changes in the Stevedoring Industry and Some of the Effects*. Unpublished paper presented to the ILO, Geneva, in February 1967, p.7. Vol. 1, P,102/92, NGB.

<sup>14</sup>While these ships were building, Adelaide and McIlwraith had acquired Smith's minority shareholding in Bulkships and exchanged their shares in ASP for an equal number in Bulkships. The effect of this complex transaction was to make ASP the subsidiary of Bulkships, which Adelaide and McIlwraith now owned equally. *The AFR*, 9/6/68. However, ASP remained the provider of shipping services except in the BHP bulk trades.

<sup>15</sup>In contrast to ASP and ANL, BHP found that the unit load concept best suited its operations.

in 1973 for permanent charter into the steel trades.<sup>16</sup> Its order for two larger cellular container ships confirmed ASP's preference. However, another private owner, Holyman, followed the ANL and introduced a vehicle-deck vessel to its trade between South Australia and Tasmania.

Existing means of handling cargoes were not usually suited to the efficient loading or discharging of these specialised ships. Appropriate shore support, such as 'Portainer' cranes for working the cargoes of the cellular container ships, and heavy-duty forklift trucks for Ro-Ro ships, had to be built or bought.<sup>17</sup> For example, the extension of ASP's container service required an upgrading of the cargo-handling methods of *Kooringa*, that was equipped its own cranes. In 1967, therefore, ASP and the British consortium, Overseas Containers Australia Limited (OCAL), invested jointly in Seatainer Terminals Limited (STL) whose purpose was to provide the cranes and equipment needed to service the fleets of its owners and other clients on the wharves in Sydney, Melbourne and Fremantle.<sup>18</sup> In some instances the type of vessel that could be used was determined by the suitability of its berth, for example its load-bearing capacity, to accommodate the equipment the ship needed.<sup>19</sup>

The intent of the investment represented in approximately seventy new vessels that joined the Australian fleet between 1965 and 1976 was to reduce manpower employed as well as improving efficiency by better design and cargo-handling methods.<sup>20</sup> Thus the introduction of larger and faster ships and improved cargo equipment to the general cargo and bulk trades was complemented by on-board technological improvements common to both types of vessel. Usually this involved the removal of on-board cargo-handling equipment, or at least the replacement of labour-intensive derricks with cranes, the provision of power-operated hatches, self-tensioning winches to facilitate mooring, control of main engines from the bridge and

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<sup>16</sup> These vessels, *Lysaght Endeavour* and *Lysaght Enterprise*, were designed to carry the steel strip of BHP's Port Kembla steelworks to South Australian manufacturers via Westernport for finishing at the rolling mill of BHP's subsidiary John Lysaght Limited. Barry Pemberton, *Australian Coastal Shipping* op.cit. p.197.

<sup>17</sup> ASIA, *Annual Report, 1968-69*, p. 16.

<sup>18</sup> Overseas Containers Australia Limited was a British consortium headed by P & O Limited.

<sup>19</sup> The Western Australian State Shipping Service's (WASSS) decision to introduce unit load ships with their own cargo-handling equipment on its Fremantle-Darwin service was dictated by the costs and impracticability of modifying existing wharves for the cranes and heavy forklifts needed for containers. Although the ships "proved more efficient than the vessels they replaced", they did not reduce WASSS's losses. *Ibid.* p. 19.

<sup>20</sup> Department of Shipping and Transport 1977, *Australian Shipping and Shipbuilding*, 29<sup>th</sup> Edition, AGPS, Canberra, 1977 pp. 4,5.

long-lasting paint systems.<sup>21</sup> The oil crisis of 1973 added to the existing impetus for improvements in engine design that enabled the use of cheaper fuel and delivery of increased power. The effect of the increasing size of vessels and on-board technology is reflected in BHP's fleet that doubled its lifting capacity from 227,818 to 645,674 deadweight tonnes between 1964 and 1975 by the addition of only three vessels without a corresponding increase in the number of seamen employed.<sup>22</sup>

Technology is one of the explanatory framework's six competitive forces. Its introduction to the Australian fleet was accompanied by costs to all shipping operators that imposed short-term pressure on profitability and widened the competitive gap between shipping and its substitutes. One source of this was the delays to ships due to striking marine and waterfront labour unions resisting the technology-induced loss of employment. Technically advanced ships were rendered vulnerable to these delays because of their high capital values. Strikes became a frequent and costly feature of marine industrial relations between 1965 and 1985. The pension funds, severance and other payments related to compensation for termination of employment that settled the strikes further increased the costs of technical advances. Because of this natural resistance of unions to employment loss, it was many years before Australian shipping recouped through increased efficiency the cost of improved technology. As King notes

The ability of labour to demand higher wages or allowances and/or to use technology only within very limiting parameters and to less than its full potential has substantially discouraged and slowed the benefits of new technology in Australian vessels.<sup>23</sup>

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<sup>21</sup> Shipowners were also experimenting with new means of propulsion, and BHP and Union were among those that took the technically bold step of each building four ships driven by gas turbines. However, the turbines installed in BHP's *Iron Monarch* and *Iron Duke*, and the Union vessels, *Seaway Prince* and *Seaway Princess*, built for the company under TNT supervision, later proved technically unsuitable for marine propulsion. Riley & Crisp, *The Iron Ships*, op. cit., p.91.

<sup>22</sup> The trend continued. In 1970, BHP's fleet consisted of 16 ships with a total lifting capacity of 346,841 tonnes, an average of 21,678 tonnes; their manning totalled 756 seamen, an average of 47 per vessel. By 1979, BHP operated 14 ships whose deadweight totalled 761,626 tonnes, an average of 54,402 tonnes; manning now totalled 497, an average of 36. BHP's average size of vessel had therefore increased by 151% between these years, while manning had fallen by 23%. J.G Crawford, *Revitalisation of Australian Shipping: An Overview*, Maritime Union Committee Submission, p.3, AGPS, Canberra, 1982.

<sup>23</sup> *Ibid.*, p. 129

In the case of seamen, the strikes were prompted by claims for financial protection against technology's effects additional to those already won by the 'stabilisation' scheme.<sup>24</sup> For instance, the pace-setting SUA thus defined its policy:

As a basic premise, it [the union] argued that improvements in efficiency and productivity must go hand in hand with "social progress," and threw upon the shipowners the onus of ensuring that the former did not occur without the latter.<sup>25</sup>

The objectives of social progress - improved accommodation, vocational training, pensions and increased remuneration to be paid as a guaranteed annual wage - were set out in a five point plan that included claims intended to offset the effects of technology.<sup>26</sup> These included more leave and reduced working hours to increase the demand for seamen, compensation for the effects of lost jobs, such as severance payments to the crews of ships sold, and redundancy pay for men for whom there was no work. Of all the concessions made to the maritime unions, it was perhaps the widespread introduction to the shipping industry of a 35-hour week, after a campaign lasting from 1970 to 1974, that most increased the costs of Australian shipping's labour.<sup>27</sup> The 35 hour week claim was settled by the award of a leave provision of two crews per ship, which actually required 2.1 crews to operate. This increase in crew numbers offset the productivity gains made through technology and was perceived as over-generous by press and public. It was compared, unfavourably, with the cost of the 'two voyages on, one voyage off' Scandinavian system.<sup>28</sup> Thus, as King concluded "The leave factor remains the largest contributor, in labour cost, to Australia's competitive disadvantage."<sup>29</sup>

Table 7.1 compares crew wage costs with respect to some other countries to illustrate the competitive disadvantage under which Australian vessels in international trade operated.

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<sup>24</sup> The stabilisation scheme awarded to the ratings' unions in 1964 provided for the registration of seamen by an independent authority, and the payment to them of attendance money while they sought employment. The scheme was thus an important step towards decasualisation of seamen's employment. Brian Fitzpatrick & Rowan Cahill, *The Seamen's Union of Australia 1872-1972*, Seamen's Union of Australia, Sydney, 1981, p. 279.

<sup>25</sup> Ibid. p. 282.

<sup>26</sup> Ibid. p. 282.

<sup>27</sup> The campaign for a 35-hour week had begun in ANL terminals in October 1970. *The AFR* 21/10/70.

<sup>28</sup> Peter Stubbs, *Australia and the Maritime Industries*, op. cit, p.134.

<sup>29</sup> J. King, *Australian Shipping*, Australian National Maritime Association, Melbourne, 1989, op. cit. p.114..

**Table 7.1**

**Comparison of Australian with Selected International Crews**

Country	Crew	Daily Wages Costs \$'s
Australia	37	2,600
Britain	33	700
Scandinavia	28	1,500

Stubbs, P., *Australia and the Maritime Industries*, op. cit., p.133

Crew related costs form 68% and 67% of the annual differences between Australian, OECD and Open Registry vessels respectively. The financial significance of the over-manning of Australian ships on their competitiveness is apparent and had long attracted criticism, especially their two-crew leave system that operationally needed 2.1 crews on the payroll. Over-manning reflected the archaic system of fixing manning by a Government-appointed committee, Arbitration decisions, especially the 35 hour week, and successful union resistance to crew reductions made possible by technology already paid for in vessels' capital costs. High crew numbers reflected the failure of this system of labour supply to enable shipowners to obtain the full benefits of the technology they had paid for and the success of unions in resisting these advances. By contrast, in the foreign ships that competed with Australian shipping, as seamen and their traditional skills became redundant through technology their numbers were reduced and the duties of remaining deck and engine ratings were combined in general purpose crews. The effects are seen in the comparison offered by Stubbs who notes the Japanese and Norwegians had experimented successfully with 18- and 15-men crews respectively.

Between 1977 and 1985 the number of industrial disputes between shipowners and unions and between the unions themselves over the introduction of new technology indicates the problems of Australian shipping were not due to a reluctance to embrace technical advance. Instances of shipowners' continuing willingness to subordinate the costs of such inter-action between themselves and unions to the pursuit of the benefits of the latest technology are many.

Among major labour disputes associated with the introduction of new technology during this period was the delay of BHP's *Iron Somersby* for five months, with flow

on that also caused the lay-ups of ANL and Bulkships vessels chartered by BHP. Another strike with damaging consequences for ANL was a dispute in its *Echuca*, which was equipped to trade without a radio officer.<sup>30</sup> The first two Australian-flag liquefied petroleum gas (LPG) vessels and the first of ANL's innovative coal fired vessels also all incurred bitter and costly disputes over manning.<sup>31</sup> In most cases the unions eventually conceded some reductions in manning as a result of these and other protracted disputes associated with new technology. Meanwhile they imposed cost on shipping and those users whose operations were disrupted. Towards the end of this period, perhaps because of the hedges against job losses the unions had received, several more self-discharging vessels designed for operation with reduced manning on board and ashore joined the Australian fleet without dispute.<sup>32</sup>

Apart from labour disputes associated with new technology, there were others due to inter-union rivalry that employers tried to solve by Award consolidation.<sup>33</sup> The marine unions progressively won the more important of their social progress claims, such as aggregate wages and a pension fund, but they still resisted the accompanying changes in working practices and reductions in manning for which these benefits had been conceded.<sup>34</sup> For instance, in 1976 the average Australian crew was 37, compared

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<sup>30</sup>Delays to the ANL fleet by the Professional Radio and Electronic Institute because the *Echuca* was so equipped that it was not required to carry a radio officer cost the ANL \$500,000 in 1971. *The AFR* 19/10/72. When BHP imported the *Iron Somersby* of 100,00 deadweight tonnes in 1972 while three ANL bulk carriers were laid up for lack of work, the SUA saw the vessel as a threat to the jobs of its members in a number of smaller ships. The unions sought to counter this threat to their employment by refusing to man the vessel in support of their claim for a two-crew leave system to offset its effect on job prospects. In retaliation, BHP laid up another of its ships and withdrew work from a Bulkships vessel for five months, until the matter was settled by the Arbitration Commission, D. Riley & D. Crisp (eds.), *The Iron Ships*, op. cit, p. 86.

<sup>31</sup>The LPG vessel *Wiltshire*, managed by ASP, and Adelaide Brighton Cement's bulk carrier *Accolade II* that fluidised its cargo to enable its discharge by pump, incurred substantial delays by the AIMPE over engineer manning levels in 1984. Rosemary Broomham, *Steady Revolutions*, New South Wales University Press, Sydney, 1991, pp. 211, 212. Another dispute over engineer manning delayed the introduction to coastal trading of the other LPG tanker, *Boral Gas* (later renamed *Island Gas*). Ibid. pp.206-207. The ANL's *River Boyne* was also delayed in 1982-83 for 55 days by an inter-union dispute over relative manning levels. *Australian National Line Annual Report 1983*, p. 5.

<sup>32</sup> Noteworthy among these were Bulkships' bulk cement carrier *Goliath* (1977), which also fluidised its cargoes, and the larger TNT *Alltrans* (1983), which employed similar technology for shipments of alumina from Comalco's Gladstone refinery to its Bluff, New Zealand, aluminium smelter. Smith also introduced two self-discharging 'sixty milers', *Conara* (1977) and *Camira* (1980), to the dwindling New South Wales intrastate coal trades. ANL's conversion to self-discharge of its *River Torrens* (renamed from *Selwyn Range*) in 1985 also passed without industrial incident. Australian Department of Transport, *Australian Shipping 1987*, AGPS, Canberra, 1987, pp.18-20.

<sup>33</sup> In the early 1970s the employers persuaded the sea-going unions to consolidate all of their Awards into the Maritime Industry Award. This reduced inter-union rivalry, saved administrative time and provided a bright spot in the period's labour relations. J.King, *Australian Shipping*, op. cit, p.113.

<sup>34</sup> The *Kanimbla and Manoora Agreement* of 1969 between the maritime unions and ASP was seen by the SUA as an important instance of social progress. It provided an aggregate wage and twenty weeks'

with 33 for British and 28 for Scandinavian ships.<sup>35</sup> Again, the provision of seamen with accommodation to officers' standards was estimated as adding between \$1.2 and \$2.0 millions to the capital cost of an Australian ship.<sup>36</sup> It was not until 1984, after the work of the Crawford Committee, that marine unions began to concede reductions in manning to offset investment in technical advances and crew amenities.<sup>37</sup> A side effect of the inroads of technology to employment prospects was that marine unions became even more protective of their existing work. An example was the restriction the unions placed on the entry to the international liner trade between Australia and New Zealand of vessels other than those of these two countries. Until 1974, the principal operator in the trans-Tasman trade had been Union, which employed New Zealanders in its vessels. In 1974, however, the SUA, WWF and New Zealand Seamen's Union met in Sydney in 1974 and signed an accord stating, "All unions agree that trans-Tasman trade be kept for Australian or New Zealand manned vessels".<sup>38</sup> This effectively prevented foreign-crewed ships from operating in the trans-Tasman trade and reserved it to Australian and New Zealand crewed ships. Although this accord was criticised internationally and by Governments of both countries, it provided increased opportunities for Australian vessels, including those of ANL, BHP and Bulkships.

Meanwhile, the effects of technical advances, especially the introduction of containerisation, also dominated waterfront labour relations and provided an impetus to the Government's abandonment of its role as regulator of stevedoring labour which it had occupied since 1941. The National Stevedoring Industry Conference of 1963 recommended the ASIA should cease fining waterside workers their attendance money for unauthorised stoppages. However, adoption of the recommendation by the Government did not bring waterfront peace. By 1964-65 the 1.19 million man hours

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leave in return for a reduced crew whose seamen performed both deck and engine room duties. The SUA then used the agreement in a successful work value case, which increased ratings' pay and extended the aggregate wage to the industry. Fitzpatrick & Cahill, *The Seamen's Union of Australia*, op. cit, p. 284. Another instance of social progress was the establishment in 1973 of the Seamen's Retirement Fund. Riley & Crisp, *The Iron Ships*, op. cit, p. 87.

<sup>35</sup> Peter Stubbs, *Australia and the Maritime Industries*, Australian Industries Development Association, Melbourne, 1983, p. 133. Apart from the differences in crew sizes between foreign and Australian ships, Stubbs also comments on the perhaps over-generous leave provided for Australian crews, which substantially increased payroll numbers and shipping costs.

<sup>36</sup> M.O. Harvey, *Economics of Inter and Intrastate Freight Transport in Australia*, PhD thesis, University of Queensland, 1987, p. 279.

<sup>37</sup>The work of the Crawford Committee is discussed later in this chapter.

<sup>38</sup> Australian Bureau of Transport Economics, *Review of Trans-Tasman Shipping*, AGPS, Canberra, 1987, Appendix III, p.242.

lost from such stoppages was double that of the previous year, with a corresponding increase in costs to shipping.<sup>39</sup> The principal reason was the WWF's renewal of its industrial campaign for industry pensions to protect its ageing members. With the imminent introduction of containerisation, these men could expect to be made redundant before their normal retiring age of seventy.<sup>40</sup> Meanwhile new technology in cargo transport and handling, such as with the ASP's *Kooringa*, steadily encroached on waterfront employment and unitisation of cargoes progressively spread through the coastal general cargo trades. Containerisation of Australia's international liner trades began in 1969 with the UK/Continent trade and was virtually completed by 1976. By then waterfront decasualisation had been achieved and vessels engaged in these trades had become the principal employers of waterfront labour.

The WWF's fears of the impact of technology on employment were not unfounded, and between 1965 and 1976 the number of registered waterside workers was reduced by technical advances from 22,744 to 11,860.<sup>41</sup> Faced with turmoil over concerns about the effect of technology on employment, the Government drafted disciplinary legislation and in 1965 had initiated yet another stevedoring industry inquiry, headed by Mr. A.E. Woodward, Q.C. This initially produced even worse stoppages, as both the ACTU and WWF refused cooperation, dubbing it "an industrial farce - a smokescreen to cover already prepared legislation."<sup>42</sup> The intended legislation was in fact draconian, empowering deregistration of the WWF for industrial misconduct, terminating its powers of labour recruitment and widening the ASIA's disciplinary powers.<sup>43</sup> However, the Government yielded to an ACTU appeal and deferred proclamation of the legislation after both the ACTU and WWF undertook to attend the National Stevedoring Industry Conference. Chaired by Woodward, this met regularly from October 1965; meanwhile the waterfront remained relatively peaceful industrially.<sup>44</sup>

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<sup>39</sup> ASIA, *Annual Report 1964-65*, p. 7.

<sup>40</sup> In 1966 the WWF received another blow when the Arbitration Commission awarded the work of packing and unpacking containers to another union because of the remoteness from the wharves of the depots where the work was performed.

<sup>41</sup> ASIA, *Annual Report 1964-65*, p.7. ASIA, *Annual Report 1975-76*, p.8.

<sup>42</sup> Margo Beasley, *Wharfies*, op. cit, p. 211.

<sup>43</sup> *Ibid.* pp. 213-4.

<sup>44</sup> The Minister for Labour, Leslie Bury, said that the conference "... has surely disposed once and for all ... of the old notion that used to be so freely canvassed that industrial trouble was inseparable from the stevedoring industry." ASIA, *Annual Report 1966-67*, p. 20.

By now it was apparent the expected containerisation of all cargoes except heavy and liquid bulk would transform stevedoring from a labour to a capital-intensive industry requiring a better trained, more committed, permanently employed work force to man its expensive equipment, than the casual labour that the Government had regulated for over thirty years. Thus, the objective of both Government and employers attending the was to induce the WWF to accept that the stevedoring companies would in future directly employ their own labour. As it would be inappropriate for the employees of a company to be subject to the discipline of Government regulation, the introduction of direct employment needed to be accompanied by the winding-up of the Australian Stevedoring Industry Authority. The report of April 1967 agreed on a scheme for permanent employment of waterside workers (weekly hiring) in major ports. This included an industry pension fund and payments to induce those workers made redundant by technical progress to leave the industry. Following endorsement of the scheme by the Government, employers, and all WWF branches, a trial period for permanent employment commenced in Sydney in November 1967. By 1976 it had been extended to all ports where permanent employment could be sustained by the level of stevedoring activity.<sup>45</sup> Initially, the transfer of responsibility for discipline to employers seemed to have made a spectacular improvement in waterfront labour relations.<sup>46</sup> However, the introduction of a pension fund and the compensation of men made redundant did not make the WWF any more accepting of job losses. Thus by 1970-71, time lost to unauthorised stoppages again approximated its pre-permanency levels. As the ASIA noted:

Nevertheless on every occasion when there has been a need to implement the agreed redundancy arrangements, the employers have been threatened with industrial dislocation by way of stoppages, bans on overtime and weekend work and go-slow tactics.<sup>47</sup>

The ASIA thus summarised its view of permanent employment:

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<sup>45</sup> The scheme provided for direct employment by stevedoring companies of waterfront labour up to an agreed maximum that their average activity level could sustain. Others were to work for a holding company and be allocated to employers when their work forces required supplementation. The conference also provided industry pensions for waterside workers, and payments for men made redundant. ASIA, *Annual Report 1966-67*, p. 18/19. Costs of the scheme, including any waterside workers' idle time, was borne by a levy on users of waterside labour under the *Stevedoring Industry Assessment Act 1967*. ASIA, *Annual Report 1967-68*, p.28.

<sup>46</sup> In 1966-67 unauthorised waterfront stoppages fell to a record low of 4% of man hours worked. ASIA, *Annual Report 1966-67*, p.9.

<sup>47</sup> ASIA, *Annual Report 1970-71*, p. 32.

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There was no evidence of any improvement in industrial relations during the year. Discipline has now deteriorated to the extent that in most cases it is now almost entirely related to the degree of responsibility exhibited by the men themselves.<sup>48</sup>

Nevertheless, the Government decided to relinquish its regulatory role on 31 December 1976, and the ASIA was finally disbanded in the following February. Even with its reduced membership, the WWF remained capable of causing severe industrial disruption to shipping. But by 1976, waterfront developments had diminished in importance for most of the remaining Australian shipping operators. By then, Australian companies had the majority of their vessels in the bulk trades, and had progressively sold their interests in conventional stevedoring ancillaries. Those operators remaining in the general cargo trades, mainly ANL, WASSS and Union, employed their own waterfront labour in their own terminals. Concerns with waterfront labour relations henceforward became increasingly those of the predominant users of stevedoring labour, foreign flag ships in international trades. Announcing the Government's withdrawal from stevedoring on 6 May 1976, the Minister for Labour conceded "there were serious problems in the industry that had [yet] to be solved."

With this admission ended Government control on shipping's labour that had begun 35 years earlier. It had not succeeded in improving marine labour relations or delivering uninterrupted stevedoring services. The introduction of permanent employment provided a convenient opportunity for its withdrawal. The closer relationship between employers and employees anticipated to follow decasualisation of stevedoring failed to halt waterfront disputes, to increase labour productivity or to reduce the costs of cargo-handling and prompted three mainly ineffective Government inquiries post decasualisation. The response of companies like Bulkships and Smith was to adopt policies of chartering out their vessels. This substantially diminished their exposure to shore-based costs, especially stevedoring, that was the principal but not only source of these costs.<sup>49</sup>

General cargo companies like Union, the ANL and other Bass Strait traders employing their own terminal labour, were still particularly affected by the cost of

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<sup>48</sup> ASIA, *Annual Report 1970-71*, p. 12.

<sup>49</sup>Port and stevedoring charges were estimated to comprise 50% of ship operating costs in the Bass Strait trades, and wharfage and port charges to comprise 36% of dry bulk and tanker costs. *J. King, Australian Shipping*, op. cit. p.118.

elements in the marine transport chain such as stevedoring, road transport and port charges.<sup>50</sup> In 1984, the Government turned its attention to this broader issue and set up the Webber task force, charged with investigating all shore-based shipping costs.<sup>51</sup> The ensuing report by the task force in 1986 identified a number of factors contributing to the excessive effect on Australian shipping of these costs.<sup>52</sup> It recommended these should be tackled by a series of Government appointed committees supervised by the Inter-State Commission, which, however, appeared to have little success in reducing them.<sup>53</sup>

With the high capital cost of more technically advanced vessels the prospect of industrial disruption presented too great a risk for independent Australian companies like Smith and Bulkships except against a contract for their employment. The interaction between labour and technology thus had a collateral effect inasmuch as it contributed to the shift of Australian shipping's control to its new users. Another collateral effect of technical advance was to hasten the end of Government support for shipbuilding, because by the mid-1970's construction of the large, technically advanced vessels was outside the physical and technical capacity of Australian shipyards.

Between 1965 and 1976, the four major Australian shipyards built 39 major ships for Australian owners, an average of little more than three per annum.<sup>54</sup> Over the same period, Australian shipowners had been given Government permission to import 38 ships, including fifteen for the ANL and eight for BHP. That the total of imports almost equalled that of Australian shipyards, indicated diminishing support by industry and Government for Australian shipbuilding.<sup>55</sup> By 1976 it was estimated that an Australian shipyard worker fabricated only nine tonnes of steel annually

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<sup>50</sup> According to seven of the ten ANL Annual Reports covering this period, some or all of these effects contributed to ANL's operational and financial problems.. *Australian National Line Annual Reports, 1977 to 1986.*

<sup>51</sup> Mr Ian Webber was the Managing Director of Mayne Nickless Limited. J. King, *Australian Shipping*, op. cit. p.118.

<sup>52</sup> Webber cited poor performance by port authorities, state government charges, and inefficiencies in road and rail services to and from wharves, as well as poor industrial relations and low labour productivity, as contributing to high stevedoring costs. Department of Transport, *Report of the Industry Task Force on Shore-Based Shipping Costs*, AGPS, Canberra, 1986, pp. 61-69.

<sup>53</sup> 'The problems arising from high cost and low productivity terminal operations continue to be of great concern not only to ANL but to the industry as a whole...' *Australian National Line Annual Report, 1986*, p.5.

<sup>54</sup> Eleven tankers, ten bulk carriers, eight Ro -Ro, five special purpose, and five other vessels.

Department of Shipping and Transport, *Australian Shipping and Shipbuilding Statistics, 1965 and 1977.*

<sup>55</sup> *Ibid.*

compared with 30 by his Japanese counterpart.<sup>56</sup> Thus, Australian building costs would need to be subsidised by 55% (\$12,000 per worker per annum) to make Australian shipbuilding internationally competitive.<sup>57</sup> This poor productivity, and the fact that many of the vessels imported were too large to be built in Australian shipyards, reflect the Government's dilemma. Unless it continued subsidising an inefficient industry, the Government needed to choose between providing encouragement to Australian shipyards to modernise their facilities and increase productivity, or withdrawing its support and so end domestic construction of large vessels. Indications that the Government would withdraw support emerged in 1973, when it decided to reduce progressively the shipbuilding subsidy, and permit construction overseas of ships that could be built in Australia, provided the delivered cost was below that obtainable locally.<sup>58</sup> The following year C.K. Jones, Labor's Minister for Shipping and Transport, initiated an investigative mission to overseas shipyards to recommend measures for improving Australian shipbuilding's productivity and labour relations. The proposals of the mission's 1975 report to make shipbuilding viable were ignored by the unsympathetic Liberal/Country Party Coalition that had by then taken office.<sup>59</sup>

The issue of Australian shipbuilding's future was brought to a head in 1976, when the ANL announced that it had ordered four 15,000 tonne coastal bulk carriers from Japan, despite a shortage of work for Australian shipyards.<sup>60</sup> Protests from the premiers of New South Wales and South Australia, where the major shipyards were located, and their requests for an increase in subsidies to 45%, were unsuccessful.<sup>61</sup> The Government did offer to subsidise the construction in Australia of ANL's bulk carriers to 35% of their cost, and to pay \$2 millions compensation to the Japanese shipyard for transfer of two building contracts to Newcastle State Dockyard (NSDY).

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<sup>56</sup> *The SMH*, 17/8/76. *The Australian*, 30/6/76.

<sup>57</sup> *The Australian*, 30/6/76

<sup>58</sup> The subsidy to shipbuilders had been set in 1972 as a maximum of 45% on coastal vessels exceeding 200 gross tones, payable for vessels built in any of six shipyards. In 1973 the Government lowered eligibility of vessels to 150 gross tons, extended the subsidy to vessels built by Australian owners for international trades, but decided progressively to reduce the subsidy from 45% to 25% of the building cost by 1980. Department of Transport, *Report of Australian Shipbuilding Industry Study Mission September/October 1974*, AGPS, Canberra, 1975 (both 1974 and 1975 dates here OK?), p.12.

<sup>59</sup> Among others, a reduction in the number of shipbuilding unions to minimise work demarcation disputes, increased Government financial assistance and a number of qualitative changes to improve labour relations. *Ibid.* pp .4-7.

<sup>60</sup> *The Australian*, 20/8/76.

<sup>61</sup> *The Australian*, 3/7/76.

However, the offer was withdrawn when the shipyard unions declined to sign an agreement containing a 'no strike' clause and limiting their demands for wage increases.<sup>62</sup> Following this incident, the Government reduced its subsidies and, in the absence of new domestic orders, permitted importation of overseas-built ships. Thereafter the shipyards in Whyalla, Adelaide and Brisbane and at the NSDY at Newcastle completed the vessels already under construction and progressively closed. Production at the several remaining minor shipyards was restricted subsequently to the construction of tugs and smaller vessels.

Restriction on the supply to shipping of its ships and labour is one of the forces of the explanatory framework developed to explain post-war changes that undermined the industry's profitability. The unstable international political climate immediately post-war perhaps justified the Government's policy of requiring shipowners to support an Australian shipbuilding industry. But extension of the policy long past the end of threats of hostilities seldom appeared likely to achieve the hoped-for commercial viability of the industry. Meanwhile the policy imposed high costs on shipowners, the effects of which have been thus summarised:

The objectives of Australian Governments in respect of the shipbuilding and repair industry have been only partially achieved and have imposed on the Australian shipping industry a substantial cost impost. Further, frequent change in Government policy has resulted in uncertainty and a consequential inability of Australian shipowners to plan the replacement and introduction of tonnage on any known and stable criteria. ... the use of Australian shipbuilding facilities has resulted in the capital costs of Australian merchant vessels being substantially greater than they would otherwise have been.<sup>63</sup>

Government controls over the supply of seamen and wharf labour were, like those over shipbuilding, necessary in wartime and its immediate aftermath, were extended too long into peacetime. Shipowners' dissatisfaction with the MIC and SIC because of their alleged propensity to favour the maritime unions and to try to keep industrial peace with unnecessarily generous concessions that unnecessarily raised operating costs is well documented. For instance:

The MIC only succeeded in keeping the majority of interstate ships running by ... appeasement to the militant seafaring unions which is in line with the methods employed in dealing with other large employee organisations, particularly wharf labourers, coal miners and ironworkers.<sup>64</sup>

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<sup>62</sup> *The SMH* 13/11/76 and 15/12/76.

<sup>63</sup> J. King, *Australian Shipping*, op. cit. p.125.

<sup>64</sup> Letter from Rickards (MH) to Campbell (AUSN), 12/7/48. ML.MS. 4528,149/36.

The walk-out of the SUA's Federal Secretary from the MIC shows that union's disaffection with its controls. The WWF's honeymoon with the SIC ended similarly soon after the war when the Commission sought an undertaking that the union would obey its orders.

We wish to make it definitely clear ... that the Waterside Workers' Federation will at all costs retain its rights to strike and its right to be represented on any body by officers democratically elected by its members.<sup>65</sup>

Thereafter, until the ASIA was wound up in 1978, its relationships with the WWF exacerbated rather than improved waterfront labour relations, the costs of which were borne by shipping. There can be little doubt the Government's restrictions on the supply to shipping of its factors of ships and labour had over the 35 years of control depressed industry profitability by increasing labour costs. Their termination was triggered by the interaction of two of the explanatory framework's competitive forces: restrictions on factor supply and newly emerged technology. Employers and Government realised that operation of the high cost equipment of containerisation could not be left to a casual workforce regulated by the ASIA. The Government simultaneously realised shipyards at the nadir of efficiency would never be commercially viable and were incapable of building the large technically advanced ships required without a huge investment and subsidisation of their expensive output.

### **Private Shipping: Competition and Rivalry**

Competition from shipping's substitutes, enhanced by the Government's supportive policies, sapped the profitability of all shipping except the integrated companies and ANL's rivalry was equally pervasive. An example of a major casualty of the twin forces of competition from substitutes and Government policy was ASP's container service to Western Australia, the last mainland general cargo trade in independent hands. The experience of Government policy and ANL rivalry by Holyman, ANL's principal rival in the Bass Strait trades, supplies an instance of these forces' operation

In 1964 only three of the major independent private companies Smith, Adelaide and McIlwraith, all former ASO members, remained to rival the ANL. Smith remained a member of the ASOF and CSOA but commercially acted independently. After its unsuccessful venture with AUSN in the early 1960s that

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<sup>65</sup> Resolution of the WWF's Federal Council of 10/5/149, quoted by Margo Beasley, *The Wharfies*, Halstead Press, Sydney, 1981, p. 137.

contributed to the ASO's collapse Smith abandoned the labour-intensive, high risk general cargo trades. By 1964 the company employed its vessels in bulk trades, so avoiding disruption by WWF labour, which was being progressively excluded from the handling of such cargoes by technical advances.

The other two companies, McIlwraith and Adelaide remained united in purpose through their ownership of Associated Steamships Proprietary Limited (ASP) and control of Bulkships Limited (Bulkships), which ASP also managed.<sup>66</sup> The combined fleets participated in BHP's and other bulk trades, and in the traditional general cargo trades of the private shipowners. Included in ASP's fleet were six oil tankers owned and imported by four major oil companies to protect their trades from further intrusion by Miller or other Australian companies. A condition of their importation was an undertaking to the Government that replacements would be built and operated in Australia in accordance with the *Navigation Act's* requirements for new entrants.<sup>67</sup> Besides extending the life of the domestic shipbuilding industry and providing more and welcome employment for seamen, the means by which the oil companies fulfilled these requirements had several consequences for the structure and development of Australian shipping. Although large international shipowners, the oil companies lacked Australian marine infrastructure, so appointed ASP to manage their tankers and provide the crews, thus avoiding the risk of Australian seamen's pay and conditions filtering into their own industry. The oil companies' importation and construction of their own vessels excluded Australian companies from the important role of capital providers, relegating them to a lesser managerial role. The addition of tankers to the shipping industry therefore did little to strengthen it. The revival of third-party ship management, last used to manage the Government's ships pre-ANL, provided an industry sector that expanded as mining and manufacturing companies followed the oil companies' example. Overall, therefore, the introduction of tankers

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<sup>66</sup> In 1968 McIlwraith and Adelaide exchanged their shareholdings in ASP for an equal number in the more heavily capitalised Bulkships. The effect was that, although ASP continued to service all the group's trades except those of BHP, it became a subsidiary of Bulkships. Uno di Questi, *The Log*, Nautical Association of Australia Inc., Vol 17, No: 2, Issue 76, May 1984, p.44.

<sup>67</sup> These oil companies, Shell Company of Australia Limited (SCOA), British Petroleum (Australia) Limited (BPA), Mobil Oil Australia Limited (MOA) and Esso Australia Limited (EAL), soon formed an important part of Australian shipping. Between them they built five ships in Australia, six overseas for the Australian flag, imported several more and provided cargoes for the tankers of Australian owners.

promoted Australian shipping's transition to its future role as carrier of bulk cargoes.<sup>68</sup>

The aversion to general cargo developed by Smith had not extended to Adelaide and McIlwraith that continued its pursuit through the ASO's former Melbourne to Fremantle trade, operated by ASP and serviced by its container ship *Kooringa*. The vessel's success persuaded the company to invest in two larger and faster vessels that commenced trading in 1969 and 1970 in a weekly service now extended from Brisbane to Fremantle via Sydney and Melbourne.<sup>69</sup> Their potential was such that soon after their delivery, ASP was able to sell several conventional obsolescent ships rendered redundant by the higher productivity of the new vessels.<sup>70</sup> The expanded service provided by the three ships proved as popular as that of the single vessel service between Melbourne and Fremantle pioneered by *Kooringa*. The ships achieved good loadings, stimulating hope that shipping had now found its competitive niche against land transport substitutes over long interstate distances.

However, even while the new service was still being established, the Government's programme of improving Australia's railway systems had been progressing. In 1969 the last section of a standard gauge connection from Sydney to Perth was completed, obviating the necessity to exchange bogies at Port Pirie, and to transfer Perth cargo to Western Australian Railways at Parkeston near Kalgoorlie.<sup>71</sup> In analytical terms, this immediately increased the operational attractiveness to ASP's clients of the rail substitutes services. The state railways of Western Australian and the Government's Australian National Railways (ANR) immediately began financially to exploit their advantage by aggressively cutting freight rates to win clients for their joint RACE (Railways of Australia Container Express) service. The position for ASP worsened when, on 1 October 1972, the state railways launched a campaign to capture more eastbound cargo. As was pointed out,

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<sup>68</sup> "In return for a management fee, they [ship managers] operate vessels to a high standard of service and economy for their owners." Alan E. Branch, *Economics of Shipping Practice and Management*, London, Chapman and Hall, 1982, p.205.

<sup>69</sup> The service received a strong start from a guarantee by the National Freight Forwarders Association to provide it with \$3 millions of freight annually. P.J. Rimmer, *Freight Forwarding in Australia*, Research School of Pacific Studies, Canberra, 1970, p. 17.

<sup>70</sup> The new vessels, *Kanimbla* and *Manoora*, each of 12,800 gross tons with a capacity to carry 410 ISO standard containers, were completed in late 1969 and mid-1970 respectively. Barry Pemberton, *Australian Coastal Shipping*, op. cit. pp. 274, 281.

<sup>71</sup> Department of Transport, *Tracks to the Nation, an Overview of Australian Railways*, APGS, Canberra, 1995, p.5.

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Since rail has already practically killed off road transport out of Western Australia to the Eastern states ... [freight] had to come from sea transport which, in practical terms meant the container service operated by Bulkships.<sup>72</sup>

On 11 October ASP responded by reducing its own freight rates. However, private shipping was again in a price-cutting war it could not afford this time with two government railways.<sup>73</sup> During the succeeding years ASP's Western Australian container service continued to experience increasing losses due to the undercutting of its freight rates by the railways.

The introduction of its two larger ships had made it necessary to switch cargo-handling from on-board cranes to shore-based equipment that ASP obtained by an equal partnership in Seatainer Terminals (STL) with the powerful British OCAL consortium. Its involvement with STL soon added to ASP's losses, as frequent strikes by the stevedores' workforce over remuneration issues delayed its ships. The delays to ASP's services were compounded by the relationship with its powerful partner. OCAL's vessels were much larger than ASP's and often required STL's berths for long periods to exchange the volume of containers comprising an international cargo while ASP's ships, with relatively few containers to exchange, waited.<sup>74</sup> In 1975, as the financial results of the service continued to deteriorate, ASP's Chairman, Sir Ian Potter, released a press statement that the company intended to terminate its container service to Western Australia.<sup>75</sup> A newspaper article thus explained how ASP's problems had developed from the non-commercial practices of its rail competitors in a time of rapid inflation when average male earnings had risen 72 per cent:

According to the company ASP container freights have increased proportionately with national inflation and last year ... by more than 20 per cent. In contrast railway

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<sup>72</sup>The Western Australian Railways initiative offered to carry as much cargo as a shipper could pack into a 50 ton van to the Eastern states for a flat rate of \$500. *The AFR*, 20/10/72.

<sup>73</sup> Ibid.

<sup>74</sup> "This [ASP's loss of independence] was to cost them [ASP's container ships] dearly in delays and industrial problems, in fact it could be said that in the 1970/1974 period the consequences of terminal delays were far more serious than the effect of subsidised railway freight rates." Uno di Questi, *The Log*, Nautical Association of Australia, Vol.17, No: 3, Issue 77, August 1984, p. 81. It is doubtful from the press statements and actions of ASP's management that it shared this view.

<sup>75</sup> "Associated Steamships Pty. Ltd. has lost so much money operating its three container ships between the Eastern states and Fremantle that the company proposes to 'terminate the service and sell the ships.' ... In a telegram to both Governments [Federal and Western Australian], Sir Ian said... the company's losses were so serious that unless there was a commercially acceptable proposal by either Government by July 25, the service would be stopped." *The AFR*, 22/7/75, p. 1. The same press article reported that "The company has not asked either Government to subsidise its shipping operations" and, in answer to Government enquiries, had defined "a commercially acceptable proposal" by stating that a "10 percent return on tax was an acceptable short term solution." Ibid. p. 4.

charges for containers to Western Australia have remained substantially constant during the last four years.<sup>76</sup>

As an example, a newspaper article quoted the railway's freight rates for a block of three containers, a shipment unit popular with shipping and rail clients alike, as rising over three years from \$1,485 (1971) to \$1,550 (1974), an increase of 4%. It added:

These figures relate to basic schedule rates. Further concessions are being made by railways through rebates on overseas container rates and subsidisation of delivery charges.<sup>77</sup>

The newspaper article also noted that, in contrast to their behaviour in the freight market, a market in which shipping did not compete, the railways had raised passenger fares by 30% in 1974.<sup>78</sup>

The governments concerned responded differently to ASP's threat to end its service. The Federal Minister, Charles Jones, was dismissive of the problem, stating with obvious insincerity that "the most efficient form of transport should get the business."<sup>79</sup> The Western Australian government was, however, not happy at the loss of its independent sea-link and tried to assist ASP by rebating to it all revenue derived by Fremantle Port Authority from the container service for three months to the end of November.<sup>80</sup>

### **The Responses of Private Companies**

In 1971 an important event in post-war Australian shipping occurred when Australia's largest road transport company, Thomas Nationwide Transport Limited (TNT), acquired a one third share in Bulkships and therefore in its subsidiary ASP. TNT had accumulated shares in the coal, hotel and brewing group R.W. Miller Limited (Miller) since 1968 and its shareholding of 26% together with \$4.802

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<sup>76</sup> Ibid. p. 4.

<sup>77</sup> Ibid. p. 4.

<sup>78</sup> The article also explained that whereas the rail rate was increased to \$1,700 for three containers in 1974, this was accompanied by a reduction from 19 to 16 tons of the minimum tonnage required in the first container to attract these rates. Ibid. p. 4 .

<sup>79</sup> Jones was the Minister for Transport in the Labor administration that had replaced the Liberal Government in 1972. If he was able to reconcile his statement with the freight-cutting policies of subsidised railways, he was not reported as having done so.

<sup>80</sup> Uno di Questi, *The Log*, issue 77, August 1984, p.71. The gesture perhaps reflected fears of the state government that the state's transport would again be disrupted if a further wash-away of the Transcontinental rail link, similar to that of 20 March to 13 April 1976, occurred after the container service had ceased.

millions in cash comprised TNT's consideration for its share in Bulkships.<sup>81</sup> That TNT's commitment to shipping was commercial rather than traditional became apparent when its Managing Director, Sir Peter Abeles, commented "I'm not a shipping man so I'm not in love with my ships."<sup>82</sup> By November 1975 TNT held 50% of Bulkships and its difference in management style soon became apparent when ASP's service was terminated after losing \$500,000 in eight months and its two larger ships chartered to a TNT affiliate for the north Atlantic trade.

Meanwhile, TNT had again increased its presence in shipping when in 1971 it successfully negotiated the purchase for Bulkships of a 50% interest in The Union Steamship Company of New Zealand Limited (Union), wholly owned by the British company, P & O Limited, for a consideration of \$NZ23 millions.<sup>83</sup> Union owned 44 ships, including an Australian fleet of 8 vessels comprising 2 modern general cargo Ro-Ro vessels, and 6 small, obsolescent cargo ships mainly engaged in minor unprofitable bulk trades between Tasmania and the mainland.<sup>84</sup> After this change in Union's ownership, TNT's influence in Australian shipping expanded further. Union's New Zealand shareholders agreed that TNT would supervise the company's Australian operations for the benefit of all shareholders, including a programme that disposed of the obsolescent ships and replaced the Ro-Ro vessels by building two larger, technically advanced vessels.<sup>85</sup> Thus in the space of little more than two years, TNT had become Australia's largest and most influential shipowner

Developments occurred in the meantime in other Bulkships' trades that further changed its profile. Between 1965 and 1976 Bulkships had built four more bulk carriers, of which two were for BHP's bulk trades, bringing to four the total of

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<sup>81</sup> Letter from E.P. Abeles, Managing Director of TNT to Sir Ian Potter, Chairman Bulkships 11/8/70. Bulkships file, MML. Papers, ANMM

<sup>82</sup> *The Australian*, 5/2/76.

<sup>83</sup> Union had been unprofitable in the hands of P&O. Nevertheless the New Zealand Government insisted under its *Takeover Regulations (1964)* that ownership of 50% of Union be retained in New Zealand. The purchasing entity of Union was Tasman Union Limited, owned 50% by a New Zealand consortium and 50% by TNT Shipping (NZ) Limited, wholly owned 51% by Bulkships and 49% by TNT. Letter from F.P. Golan (TNT) to K.D. Stewart (Secretary, Bulkships), 22/11/71. MML File (1971), ANMM.

<sup>84</sup> Memo to MML Directors from K.D. Stewart, Secretary, Bulkships, 5/4/71, loc. cit.

<sup>85</sup> "In both these associated companies, [Union and STL] management was controlled directly by TNT Executive personnel." TNT Limited, *Annual Report*, 1972, p.8. The new ships, *Seaway Prince* and *Seaway Princess*, delivered respectively in 1975 and 1976, were among the first of only a handful of vessels built worldwide that were powered by gas turbines. Department of Shipping and Transport, *Australian Shipping and Shipbuilding Statistics 1977*, AGPS, Canberra, p.28.

Bulkships' vessels so employed.<sup>86</sup> However, over this period the shareholders in Bulkships, especially TNT, became increasingly dissatisfied with their relationship with BHP, whose cargoes were carried under contracts of affreightment, earning freight per ton of cargo carried irrespective of the length of voyage. Thus Bulkships bore the risk if voyages were extended by factors it could not control beyond their estimated length on which freight was based, an increasingly frequent occurrence that reduced the profitability of its vessels in BHP's trades to below expectations<sup>87</sup> Bulkships therefore prevailed on BHP to take its vessels engaged in BHP's trades on demise charter, whereby their crewing, management and the commercial risks of their operation passed to the charterer.<sup>88</sup> This completed by 1976 the transformation of ASP from its 1964 position as Australia's largest private independent operator of its own and shareholders' vessels to a company providing ship management services to a new parent, Bulkships, and to the major oil companies. With transfer to BHP's demise ownership of the Bulkships' vessels in its trades, and the increasing number of foreign-owned tankers under the Australian flag, Australian shipping's dependence on the manufacturing industry increased further.

TNT's entry to the shipping industry was not welcomed by all of its existing participants. Its interest in Miller brought it into conflict with Smith. The latter, since leaving the general cargo trades, had found long-term assured employment for its four remaining ships in the minor dry bulk cargo trades of soda ash, cement, gypsum and sugar. In 1967 Smith followed ASP into the growing business of ship management by assuming responsibility for the management of three small tankers imported by Caltex (Australia) Limited pending construction of its Australian-built replacements. Perhaps this, perhaps the rare opportunity to expand into new trades provided by Miller's Australian flag oil tankers in 1963, prompted Smith to join the liquid bulk trades and in 1969 it purchased its first tanker, acquired a second in 1972, and built a third in 1976. The death in 1972 of Miller's principal shareholder, its Chairman Sir Roderick

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<sup>86</sup> Applying TNT's precepts of providing expertise but avoiding operational risk, the other two vessels were built against lifetime charters for the Electrolytic Zinc Company Limited and the Goliath Portland Cement Company Limited for use in their respective trades under the management of TNT's subsidiary, ASP. Uno di Questi, *The Log*, Vol. 17, No. 2, Issue 76, May 1984, p.47, and *The Log*, Vol. 17, No. 3, Issue 77, August 1984, p.80.

<sup>87</sup> A contract of affreightment is "A contract by charter party or Bill of Lading by which a shipowner agrees to carry goods in his ships for reward. The sum paid is the freight." Burke, E (ed.), *Jowitt's Dictionary of English Law*, op. cit, p.70. An extension of the voyage time for whatever reason does not therefore attract extra freight.

<sup>88</sup> D. Riley & D. Crisp, *The Iron Ships*, op. cit. p.94.

Miller, initiated a competition for control of the company. Miller's assets included two of the tankers it had imported and two larger replacements under construction, making it especially attractive to Smith that had ambitions to expand further into liquid bulk shipping.<sup>89</sup> It was, however, the Australian oil company Ampol, itself a tanker owner, which secured the 29% shareholding held by Miller's former chairman, and it followed this up with a takeover bid for the whole company.<sup>90</sup> When the Miller directors recommended rejection of Ampol's offer in June, Smith countered and succeeded in buying approximately 30% of Miller's shares. Smith's takeover was, however, frustrated when Ampol and Bulkships that between them held the major part of Miller's shares agreed "to act jointly in the future" in matters concerning the company.<sup>91</sup> A majority of Miller's directors then signified their preference for Smith's acquisition of their company and on 6 July 1972 announced the issue to Smith of 4.5 million shares, thus destroying the superior voting power of Ampol/Bulkships. In September Ampol commenced an action in the Equity Courts to protect the position of itself and Bulkships.<sup>92</sup> On 18 December the Court declared the share issue invalid, a decision subsequently upheld by the Privy Council on appeal from Smith.<sup>93</sup> The circumstances that frustrated Smith's attempt to gain control of Miller further distanced it from its former ASO associates, Adelaide and McIlwraith, now both firmly allied with TNT through Bulkships.

Although it had suffered a setback, Smith persisted with its objective of controlling Miller and was assisted by industry developments. By the 1970s it was difficult to find new trades that offered employment for Australian ships, and seamen. The seagoing unions therefore began their own campaign to reserve for Australian flag tankers a proportion of Australia's crude oil imports, still carried almost exclusively in foreign flag tankers chartered by the international oil companies. This presented an obvious opportunity for Miller and Smith, owners of the only Australian

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<sup>89</sup> In 1969 Smith had entered the coastal oil trade with *Howard Smith* a second-hand Norwegian oil/ore bulk carrier purchased for \$7 millions. "Howard Smith Limited, which has missed out substantially in the growth sectors of Australian coastal shipping, 'roll-on-roll-off' and bulk shipping, is making a late assay [sic] into the bulk oil-ore trade." *The AFR*, 22/4/69.

<sup>90</sup> *The AFR*, 28/6/72.

<sup>91</sup> *Ibid.*

<sup>92</sup> Miller's directors claimed the shares were issued to overcome its pressing liquidity problems. *The AFR*, 8/9/72. Added to the shares Smith acquired through its offer, the effect of the issue was to increase Smith's shareholding in Miller to 50.6% and to reduce the Ampol/Bulkships position to 36.6%. *The AFR*, 28/6/72.

<sup>93</sup> "Howard Smith is in an unenviable position. It has obtained a Miller holding of about 34% through its take over bid at a cost of about \$7.5 millions." *The Australian*, 29/12/72.

flag tankers, to expand their existing presence in the coastal oil trades by obtaining tankers for these imports.<sup>94</sup> As evidence of willingness to invest in tankers, Smith had imported a medium-sized crude oil carrier in 1969, and by 1974 Miller had fulfilled the condition attached to the importation of its two original tankers and replaced them with two larger crude oil tankers.<sup>95</sup> Thus both companies were now in a position to extend their operations into the crude oil import trade that would have considerably strengthened the independent sector. However, the international oil companies had not readily accepted the presence of independently owned Australian flag tankers in their trades ever since, firstly, Miller in 1963, and then Smith, had penetrated the coastal oil trades.<sup>96</sup> A struggle for Australia's crude oil import trades ensued between the private tanker owners, supported by the seagoing unions on the one hand, and the major oil companies on the other.

The contest began in February 1977 when employment of the Smith coastal crude oil vessel *Howard Smith* was terminated by the oil companies, claiming an insufficiency of cargo, a claim that neither Smith nor the seagoing unions accepted.<sup>97</sup> The unions thereupon commenced a campaign claiming that if there was insufficient coastal work for the tanker, it should be re-hired for the importation of crude oil, work for which the oil companies maintained it was unsuited.<sup>98</sup> The unions' industrial action delayed foreign flag crude oil tankers in Western Australia, South Australia, Queensland and, particularly, Botany Bay.<sup>99</sup> No longer willing to accept the costs of an unemployed ship, Smith sold its tanker in October 1979.

Meanwhile in 1977, against opposition by the oil companies, Miller again tried unsuccessfully to repeat its success of 1963 and import a tanker suited for charter into the international oil trades.

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<sup>94</sup> An exception was the Australian-owned tanker, *Ampol Sarel*, built by Ampol Limited in 1979 for the company's imports of crude oil from Indonesia. Department of Transport and Communications, *Australian Shipping and Shipbuilding 1986*, AGPS, Canberra, p.13.

<sup>95</sup> *Amanda Miller* (1971) and *Robert Miller* (1974) both of 67,000 tonnes, and *Howard Smith* of 59,000 tonnes, owned respectively by Miller and Smith, Department of Shipping and Transport, *Australian Shipping and Shipbuilding 1978*, AGPS, Canberra. pp. 2-5.

<sup>96</sup> By 1978 the oil companies had countered Miller and Smith by building five Australian flagged and crewed tankers in Australia. Department of Shipping and Transport, *Australian Shipping and Shipbuilding 1978*, AGPS, Canberra, p.8.

<sup>97</sup> The oil companies claimed that they could only provide between 70 and 100 days' work for the ship annually. *The SMH*, 25/6/77.

<sup>98</sup> *Ibid.* The oil companies said it would cost between \$3.5 and \$5 millions to employ the ship overseas.

<sup>99</sup> By March 1977, over 20 tankers had been delayed in Botany Bay and Sydney, some for over 20 days, at a cost of between \$8,000 and \$15,000. *The SMH*, 25/6/77.

The ship, comparatively new, has not worked for two and a half years and has a further two and a half years to fulfil a charter for Burma Oil which is majority owned by BP. There is no work in sight for the vessel. Burma Oil refused to release the vessel for sale to Millers; they prefer to pay for a ship they cannot use rather than sell to an Australian shipowner.<sup>100</sup>

Thereafter the focus of the unions' campaign changed from one of overt support for individual owners to one that demanded a Government policy requiring some of the crude oil import trades be reserved for Australian flag ships.<sup>101</sup> By November 1978, intermittent shortages of fuel in New South Wales due to tanker delays had reached such proportions that the state's Minister for Energy convened a meeting of his state and federal counterparts, to try to resolve a problem that the Federal Transport Minister said had cost \$30 millions.<sup>102</sup> The subsequent press release stated:

This meeting of Commonwealth and State Ministers supports the use of Australian manned ships for the carriage of overseas oil providing they can operate on commercial terms and recommends continued negotiations between the responsible parties.<sup>103</sup>

It also stated that the Government would examine any proposal that emerged, and would provide technical and financial advice. However, the major oil companies reacted as they had previously with Miller's product tankers, and after enduring several more years of delays, they imported their own Australian flag vessels.<sup>104</sup> Disappointed, Smith sold one of its two coastal product tankers for want of employment. Smith at least partly satisfied its ambitions for a greater presence in the oil trades by later buying Ampol's shareholding in Miller. It subsequently achieved complete control by acquiring from Atlantic Richfield Limited (ARCO), the

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<sup>100</sup> SUA Federal Office Report No. 6 of 1977, 27/5/77. Z129/220, NGB.

<sup>101</sup> According to the Minister, "The Government is not prepared to agree to either direct or indirect subsidies to enable one or two more ships on overseas trades if this would result in increased costs to Australian Consumers." He also urged the oil companies to prosecute the unions for secondary boycotts under section 45D of *The Trade Practices Act*, *The Australian*, 11/5/78.

<sup>102</sup> The unions denied this. "... the unionists have also told Mr. Nixon they believe multi national oil companies are using demurrage payments [compensation paid by charterers to owners of delayed vessels] as a means of exporting money tax free from Australia. ... The unions believe this simply means a payment from the Australian company to the parent company for a ship that would otherwise be unemployed." *The Australian*, 4/5/78.

<sup>103</sup> Report of meeting of Commonwealth and State Ministers 28/11/78. SUA papers, Z129/220 NGB.

<sup>104</sup> These were the *Mobil Flinders*, *BP Achiever* and *Nivosia*, introduced respectively by Mobil Oil Australia Limited in 1982, BP Australia Limited in 1983, and the Shell Company of Australia Limited in 1984. Department of Transport and Communications, *Australian Shipping 1987*, AGPS, Canberra, p.21.

shareholding in Miller that ARCO had bought from Bulkships in 1979.<sup>105</sup> Smith thereby concluded an objective it had pursued since its 1972 litigation with Ampol and Bulkships and having achieved ownership of Miller's two coastal crude oil tankers, ordered two larger replacements from Korea in 1984. But the company's ambitions for the international crude oil trades had to be satisfied with the management of a coastal crude tanker imported for Amoco Limited during its brief attempt to penetrate the Australian market.<sup>106</sup>

The Government had stated as long before as 1963 that its policy supported the carriage of oil coastally in Australian vessels, and had expressed similar but qualified views during the recent dispute.<sup>107</sup> If it had decided to reserve a proportion of crude oil imports to national flag vessels, it would have been following a policy similar to that adopted by some other OECD countries to secure their oil supplies.<sup>108</sup> However, as in the case of iron ore exports, the Government did little to assist Australian independent shipping, which saw its ambitions disappear when union pressure forced the oil companies to supply their own Australian flag ships. In opposing the use of Australian flag vessels in the crude oil import trades, the oil companies had claimed that its high crew numbers would raise the price of products to high levels. Afterwards no such evidence was adduced and this probably did not occur, perhaps because as crew numbers were reduced, and the size of vessels increased manning costs as a proportion of total costs declined.<sup>109</sup>

Smith was a conglomerate and not totally reliant on its traditional commitment to shipping for its prosperity. From the company perspective its policy of risk minimisation by employing its fleet on charter in the coastal bulk trades was successful, as Smith's steadily mounting profits from \$11.53 millions to \$24.95

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<sup>105</sup> In February 1979 Smith gained control of Miller by paying Ampol \$24.43 millions for its 34% of the company, and shortly afterwards bought from ARCO the 32% for which it had paid Bulkships \$28 millions in June 1978. *The AFR*, 15/2/79.

<sup>106</sup> *The AFR*, 19/11/82.

<sup>107</sup> "It is the Government's policy that all Australian coastal oil trade be carried in Australian crewed and built vessels." Cabinet Decision 1053, 7/10/63. A4940/1 C3536. NAA.

<sup>108</sup> "Several overseas countries, including the US have already moved to give national flag vessels a share of the trade." *The SMH*, 25/6/77. Clearly, high crew costs were not an obstacle because US seamen were the world's most highly paid. France, whose seamen enjoyed employment conditions similar to those of Australians), also reserved a proportion of crude oil imports to its own flag.

<sup>109</sup> Paul Amos, *Coastal Transport in Australia*, CEDA Monograph M64, Melbourne, 198, op. cit. Paragraphs 4.07, 4.08. "Over the last decade manning costs have declined substantially as a proportion of total costs. ... The main reason for this is the increase in average vessel size." Amos compares the cost components of two ANL vessels, of 1970/71 and 1979/80, whose manning costs were respectively 25% and 13% of total costs.

millions for the years ended 31 December 1977 and 1981 respectively attest.<sup>110</sup> Concurrently with its pursuit of the crude oil trades, Smith maintained its policy of investing in other shipping, and between 1977 and 1985 increased its coastal fleet with the addition of four newly built dry bulk vessels to its tankers. In 1979 Smith had acquired a shareholding in a Japanese company, Ube Industries Limited, with which it reached agreement to build an Australian bulk carrier to carry Australian coal to Japan.<sup>111</sup> It also built and managed two '60-milers' for a large coal mining associate and a much bigger bulk carrier for the alumina trades of Alcoa (Australia) Limited.<sup>112</sup> The prudent and restrained policy followed by Smith in a period of high risks for shipping resulted in a financial strength for the company on its 125<sup>th</sup> anniversary.

Howard Smith has a very solid Balance Sheet which indicates a predilection on the part of the Board for equity financing rather than debt. At 31/12/78 the company had no long term debt, bank overdrafts of only \$4.8 millions and short term deposits of only \$4.7 millions. Total tangible assets stand at \$148.6 millions.<sup>113</sup>

Bulkships and its shareholders also adopted a business strategy of risk minimisation but limited its exposure more innovatively than by the conservative strategy of Smith. Unlike Smith, Bulkships earned all of its income from shipping. Because it was privately owned and focused on international ventures, the group had a low public profile outside Australian shipping circles. But between 1977 and 1985, Bulkships developed into Australia's largest and most successful independent shipping company by applying novel techniques and philosophies that set a new path for Australian shipowners.<sup>114</sup> In 1977 the Bulkships group's major assets were the ships and operations of ASP that had survived the demise of its Western Australian container service, a 50% share in Union, and the shareholding in Miller, with which TNT had purchased entry to Bulkships.<sup>115</sup> The role that Bulkships thereafter

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<sup>110</sup> *The SMH*, 25/2/78. Smith's annual profits for the intervening years were \$14.05 millions (1978), \$16.52 millions (1979), \$24.38 millions (1980). *The AFR*, 28/2/79, 27/2/80, 3/3/81, respectively.

In announcing the 1981 result the "Directors said the profits from shipping, stevedoring and engineering showed sufficient improvement to more than offset the poor results from coal and sugar."

<sup>111</sup> The 38,000 tonne vessel, a new *Howard Smith*, entered service in 1981. Department of Shipping and Transport, *Australian Shipping 1982*, AGPS, Canberra, p.16.

<sup>112</sup> Smith was a major shareholder in Coal and Allied Limited for which it managed the *Conara* (built 1977) and *Camira* (built 1980). The 28,000 *Lindesay Clark* was completed for Alcoa in 1985. *Ibid.* loc. cit.

<sup>113</sup> *The SMH*, 30/4/79..

<sup>114</sup> Because Bulkships was not a public company, attributable sources for information about its operations are scarce. Apart from the sources cited, background to Bulkships' business principles and objectives were supplied by Mr. Alex Carmichael, AO, CBE, Managing Director of Bulkships Limited from 1975 and 1979, during interviews on 20/12/02 and 2/4/03.

<sup>115</sup> The 50% and 25% shareholdings in Bulkships held respectively by TNT and McIlwraith became

developed for itself was that of a provider of shipping expertise to design and construct vessels to the requirements of its clients, to whom they were chartered. Bulkships thus defined its objectives and business methodology in its 1978 Annual Report:

Drawing on its experience and traditions of the past, Bulkships in recent years has concentrated on taking strategic positions which not only produce immediate profits but also secure profits and cash flow in the long term. As benefits flow from the policy of purchasing vessels at today's low shipbuilding prices, financing these at advantageous rates and placing these on secure charter the group's future profitability and financial position is secured.<sup>116</sup>

These principles departed from the established philosophy of other Australian operators, including the ANL, which had usually accepted the risks of supplying a vessel for a trade and then finding employment for it themselves. Through the services of its subsidiary, ASP, Bulkships could also provide ship management for clients lacking Australian marine management infrastructure. The package that Bulkships offered therefore separated the functions of ownership and management of vessels from the control over their trading by clients needing shipping but lacking marine expertise. The practice of putting out ships to management by a third party spread, and as other companies came to offer similar services, the concept became a catalyst in the process that changed the role of Australian shipping to that of an extension to the mining and manufacturing sectors.<sup>117</sup>

Other factors also differentiated Bulkships from its competitors: for example, its selection of staff from non-shipping backgrounds, and financial arrangements for funding the construction of its ships.<sup>118</sup> The group's 1978 gearing ratio of 0.39:1 and profit of \$10.17 millions from the thirty-eight ships in which it held beneficial interests indicate Bulkships' sound financial underpinning, and contrast with the

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62 ½% and 37½ % in 1977 when they bought the 25% held by Adelaide when it commenced its long-planned diversification. "Your Board is acutely aware of the need the company has for greater diversification of its interests and is seeking avenues other than shipping in which it may engage with reasonable security." Address to shareholders by Adelaide's Chairman in 1960, quoted by Michael Page, *Fitted for the Voyage*, Rigby Limited, Adelaide, 1975, p. 310.

<sup>116</sup> Bulkships Limited, *Annual Report 1978*, p.27.

<sup>117</sup> Vessels supplied by Bulkships for the Electrolytic Zinc Company Limited in 1975, Goliath Portland Cement Limited in 1978 and Queensland Alumina Limited in 1983 provide examples. Department of Transport and Communications, *Australian Shipping 1987*, AGPS, Canberra, 1987, pp. 20, 21.

<sup>118</sup> ANL's administrative staff numbers peaked at 606 (20.9% of total employees) in 1978. Peter Stubbs, *Australia and the Maritime Industries*, *op. cit.*, p.26. Bulkships, with a larger fleet than ANL, employed about twenty executives, a difference not fully explicable by the differing natures of the companies. Under the charter-parties of the vessels that Bulkships provided for its clients, it retained the right to mortgage the ship to a third party. This concept of 'ship banking' enabled the rotation of capital into fresh projects and the economical build up of the Bulkships fleet.

predicament reached by ANL in the same business environment.<sup>119</sup> In part, this was attributable to the sale by Bulkships in 1978 of its 32% interest in Miller, which had been the subject of its earlier conflict with Smith, to a subsidiary of the American company Atlantic Richfield, for \$28.5 millions. By 1981 Bulkships' success

... vividly verifies the optimism expressed by the TNT Chief Executive Sir Peter Abeles late last year when he forecast a 'substantial increase' from Bulkships this year. The Company's [TNT's] 1980 accounts noted that the Bulkships Group had continued with its record profit growth with all divisions reporting improved results. All Bulkships vessels are profitably employed with contracts that ensure continuous employment during the 1980 financial year.<sup>120</sup>

Bulkships' liquidity and profitability induced TNT to seek full control. In 1981 TNT devised a package that met the needs of McIlwraith for capital and protection, and acquired its 37.5 % in Bulkships that was its principal remaining shipping investment.<sup>121</sup> With its new status as a division of TNT, Bulkships became TNT-Bulkships Limited and, later, as it diversified, TNT Shipping and Development Limited. In 1978 Bulkships' subsidiary, ASP, sold the last ship it owned and thereafter operated solely as a ship-management company, whose clients were its parent, Bulkships, and other companies without the necessary marine management infrastructure. As the only Australian company applying its resources exclusively to the management of other companies' ships, ASP's business prospered as the shipping requirements of the mining, manufacturing and oil companies that were its principal clients increased. By 1985, ASP managed eighteen ships, 18% of the Australian trading fleet.<sup>122</sup> McIlwraith had also lost its last coastal vessel to fire off Kiama in

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<sup>119</sup> Bulkships Limited, *Annual Report 1978*, p. 27. Included in this fleet were sixteen ships owned by Union, in which Bulkships retained a 50% interest. Among the others were eight that operated on international charters; comprising the two ex-ASP ships chartered overseas after the demise of its Western Australian container service and six new vessels built in Japan for charter to a Transatlantic container company in which Bulkships' parent, TNT, held an interest.

<sup>120</sup> *The Australian* 28/1/81.

<sup>121</sup> McIlwraith needed funds to finance its recent expansion into coal mining. *The Australian*, 28/1/81. In 1978, TNT defended McIlwraith from a take-over attempt by acquiring a shareholding of 46.4%. TNT now protected itself from takeover by including in the consideration of \$46.875 millions paid to McIlwraith for its interest Bulkships, \$24.2 millions in TNT unsecured notes which McIlwraith could require to be paid in full if control of TNT changed. McIlwraith McEacharn Limited, *Annual Report 1979*. File 50800 [046-068], ANMM.

<sup>122</sup> By 1985 the fleet managed by ASP had grown from its original six and comprised a wide spectrum of vessel types, including product tankers, and the three large tankers built to import crude oil by major oil companies in response to Government and union pressure, bulk carriers, container ships, research vessels and a gas tanker. McIlwraith McEacharn Limited, *Annual Reports 1982-1984* inclusive. File 50800[046-06] ANMM.

1978. After selling its shareholding in Bulkships, McIlwraith retained an interest in Australian shipping when it acquired the beneficial management of ASP from TNT.<sup>123</sup>

The performances of Smith and the development of Bulkships in this period were significant for independent Australian shipping. They had bypassed the negative effects of Government, substitutes' competition, ANL rivalry, factor restrictions and the increasing influence of shipping's new users to earn profits by adapting technology, developing appropriate business strategies and prudent management methods.<sup>124</sup> Although their successes resulted from different strategies, they had a common purpose of limiting commercial risk that was reflected in the financial stability of their results compared with those of the ANL.

Miller's penetration of the oil trades had created an opportunity for private investment and fostered a ship management industry but was not the only opportunity for shipping in the 1970's. Another was the development of the aluminium industry in Queensland during this period that generated a new intrastate trade of which private shipping won a share equal to that of the ANL.<sup>125</sup> Commencement of large scale mining of the Cape York bauxite deposits in 1966 provided employment for four 70,000 deadweight tonne vessels, two owned by ANL, two by the American-owned Clutha Development Proprietary Limited, carrying the bauxite to the Gladstone refinery of Queensland Alumina Limited (QAL).<sup>126</sup> Four new bulk carriers, two ANL owned and two owned by Bulkships replaced the existing fleet in 1983.<sup>127</sup> Several ships were also needed to carry the manufactured alumina to plants in Geelong, Bell Bay, Newcastle and Bluff, New Zealand, for smelting into aluminium.<sup>128</sup> The mining of bauxite at Weipa and Gove on the Gulf of Carpentaria also prompted the

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<sup>123</sup> Uno di Questi, *The Log*, Vol. 17, No. 3, Issue 77, August 1984, p. 81.

<sup>124</sup> In the year ended December 1978 Smith boosted earnings by 58.3 % and "... hoped the Federal Government will reassess the company's proposal for the carriage of a specified proportion of overseas oil imports in Australian owned vessels." *The Australian*, 26/4/79.

<sup>125</sup> Section 15 of the *Australian Coastal Shipping Commission Act* that created the ANL did not include its right to "establish" an intrastate service. Thus for several years ANL's service from Melbourne to Queensland ports had been losing money; although the vessels had empty space to carry intrastate cargo, the Queensland government refused to allow ANL to carry Queensland intrastate cargo until 1977. The Australian National Line, *Annual Report, 1976-77*, p.4.

<sup>126</sup> The Weipa bauxite trade did not compete with Queensland railways and, presumably, the use of ANL's ships on contracts of affreightment did not constitute "establishing" an intrastate service.

<sup>127</sup> Bulkships acquired its share of the trade in 1980 by purchasing the ships of the American company Clutha Development Pty. Limited. McIlwraith McEacharn Limited, *Annual Report 1980*, p.6. By 1982/83 the older ships had been replaced by four 70,000 deadweight coal-fired steamships, the first such vessels built for thirty years, and a bold technological experiment. *The AFR*, 20/9/82.

<sup>128</sup> Department of Trade and Resources, *Australia's Mineral Resources: bauxite, alumina, aluminium*, AGPS, Canberra, 1980.

establishment of a new shipping company, Australian Territory Liner Services Pty. Limited (ATLS), which operated between 1970 and 1973, carrying the equipment and construction materials needed by the mines.<sup>129</sup> The welcome growth of the aluminium industry and addition to Australia's tanker fleet of twelve imported or domestically constructed vessels during this period provided new opportunities for Australian shipping.<sup>130</sup> The Northwest shelf Liquefied Natural Gas deposits also promised employment for several large LNG tankers to ship the gas for export to Japan.<sup>131</sup> That these vessels were beneficially owned by foreign oil companies or worked for mining companies brought the shipping industry closer to its ultimate reliance on these users for its survival.

Strong domestic and international demand for BHP's steel in the decade post-1964 required the expansion of the fleet owned and chartered by the company. Then in 1977 a depressed domestic demand for steel caused the lay-up and sale of five BHP ships, the charters of four more to be ended and several vessels to trade at reduced speed. The final years of the 1970's saw domestic steel markets rising and high levels of exports but in the early 1980's a downturn in the national economy led in 1982-83 to the collapse of the domestic steel market. This was reflected in BHP's fleet of owned and chartered vessels that declined from 23 to 13 operational ships between 1981 and 1983, a reduction that included the termination of ANL's contracts for BHP bulk cargoes.<sup>132</sup> Ominously for the future carriage of its products by sea, BHP began systematically to step up arrangements for their distribution by rail. Meanwhile the demand for steel recovered and with it BHP's shipping requirements expanded. By 1985, the lifting capacity of its owned fleet had more than doubled from 600,000 tonnes in 1977 to 1.32 million tonnes to compensate for the termination of the ANL's vessels. That this required the introduction of only three large ships illustrates the

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<sup>129</sup> Equal shareholders in ATLS were the Australian company F.H. Stephens Pty. Ltd. and the Danish Karlander Line. The Australian-built replacements for the imports were sold to BHP following collapse of ATLS's trade in 1973.

<sup>130</sup> Department of Shipping and Transport, *Australian Shipping and Shipbuilding 1977*, AGPS, Canberra, 1977, p.8. Only three of the tankers were owned and operated by an Australian company, Smith. The others were owned partly or entirely by major oil companies.

<sup>131</sup> The long-term contract negotiated with Japan in the early 1980s for the sale of Liquefied Natural Gas from Australia's North West shelf required five large specialised tankers for shipment of the gas. The marine unions promptly claimed a share of the fleet, but were not satisfied with the two initially offered. *The AFR*, 14/9/81.

<sup>132</sup> Riley & Crisp, *The Iron Ships*, op. cit. p. 102.

effect of their size and technology on employment prospects for ships and seamen.<sup>133</sup> This substantial capital investment indicated BHP's intention to maintain its place in Australian shipping at least for the foreseeable future. With these new vessels and the reduction of the ANL fleet consequent on BHP's decision to carry its own bulk cargoes, its own fleet was now second in size to the Line's.

Events between 1964 and 1981 also changed the traditional operations of other integrated shipowners and the remaining minor shipowners that constituted the balance of the private sector. CSR, having sold its ageing sugar carrier in 1969 and its passenger/cargo ship in 1972, now operated two imported tankers in the molasses and chemical trades. In 1979 CSR followed the example of BHP with ANL and built its own bulk carrier to replace the vessel it chartered from Bulkships. CSR also constructed a larger bulk vessel in 1984 to carry gypsum from Thevenard to its building division's eastern manufacturing plants.<sup>134</sup>

With the attainment of independence by the Territory of Papua New Guinea in 1975, the shipping and other operations of Burns Philp (BP) in the area declined. All of BP's six-vessel fleet employed Australian officers throughout, but only three employed Australian ratings, for which the company had received subsidies since 1955.<sup>135</sup> Papua New Guineans furnished crews for the others. By 1967 the subsidies had risen from \$200,000 to \$400,000 annually and the company sought an increase, demonstrating that after application of the subsidy it had lost almost one million dollars since 1962 on the Australian-crewed vessels' operations.<sup>136</sup> The Committee appointed by the Government to review BP's claim recommended a reduction of the subsidies and their phasing out by the end of 1968, which the Government accepted, with adverse reaction by press and unions.<sup>137</sup> Between 1968 and 1970, BP

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<sup>133</sup> Department of Transport and Communications, *Australian Shipping*, AGPS, Canberra, 1987, pp.14, 15. The 1985 tonnage excludes Australia's largest vessel, the 231, 850 deadweight *Iron Pacific*, which was still under construction, for BHP intended to operate an innovative triangular service carrying coal from the east coast to Korea and returning via the ports of the Pilbara with iron ore for BHP's steelworks in New South Wales.

<sup>134</sup> Respectively the *Ormiston* of 16,000 and *Kowulka* of 23,000 deadweight tonnes. Department of Transport and Communications, *Australian Shipping 1987*, AGPS, Canberra, 1987, p.16.

<sup>135</sup> "The subsidy has been provided essentially as an inducement to retain in the trade vessels which are manned with Australian crews." BP also had reserved to it Government cargoes to the Territory and imports of copra from PNG to the mainland. Report by Inter-Departmental Committee Examining Subsidising of Burns Philp in Australian/PNG Shipping Services. B142/O, SC 1967/68. NAA.

<sup>136</sup> The losses supplied to the Committee were \$259,936 (1962), \$209,716 (1963), \$279,694 (1964), \$49,154 (1965), \$175,146 (9 months of 1966): a total of \$973,646. Ibid.

<sup>137</sup> "Everyone wants to help the Papua-New Guineans. But the 300 Australians thrown out of work as a result of it are entitled to regard the matter a little churlishly". *The SMH* 21/1167.

progressively sold its three subsidised ships, which included the last ship built for the company in 1965, and the other three by 1971. By 1976 another integrated shipowner, the British Phosphate Commission (BPC), retained ownership of only one vessel, although it took two others on charter to maintain the phosphate trades with Nauru and Ocean Islands, and still employed Australian crews.<sup>138</sup> In 1981 the British, Australian and New Zealand governments wound up the BPC. Thereafter an Australian Government authority assumed responsibility for phosphate production at Christmas Island.<sup>139</sup> The ANL took over the charters of the BPC's three bulk carriers until their expiry in 1986-87.<sup>140</sup>

Following the ISOA's dissolution, its two surviving members, Miller and Burke, continued trading independently. After abandoning its east coast service to the ANL, Burke, now owned by Dillingham's of Hawaii, continued with Mason Shipping of Cairns to serve Thursday Island and remote Cape York communities in the last private intrastate general cargo trades that occupied four small vessels.<sup>141</sup> By 1975 most other minor shipping companies had ceased operations, except for Holyman, whose general cargo services competed with ANL's across the Bass Strait where competition from the recent entrants, Brambles Limited and the Tasmanian government, had depressed profits.<sup>142</sup> Holyman was ailing financially but unwilling to raise its freight rates to recoup rising costs until it could follow the ANL, whose rates had remained static since 1956.<sup>143</sup> To improve its competitiveness with the ANL and other operators, Holyman sought permission to replace two obsolescent ships by

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<sup>138</sup> Department of Shipping and Transport, *Australian Shipping and Shipbuilding 1977*, AGPS, Canberra, p. 14.

<sup>139</sup> Mining of Christmas Island phosphate was taken over by the Australian Government's Australian Phosphate Corporation. (APC). Australian Phosphate Corporation Discussion Paper, *The Phosphate Industry Situation*, pp.18, 19. Z129, Box 5 NGB.

<sup>140</sup> With the transfer to the ANL of the responsibility for shipping, phosphate production was no longer integrated with its shipment. *Ibid*, p.5.

<sup>141</sup> Burke built a general cargo vessel in 1978, Mason operated three small landing barges. Among other minor interests was Darwin-based Perkins Shipping, trading two small vessels in the Northern Territory. In 1981 Perkins built a small specialised ship to carry livestock and general cargo to South East Asia. In 1985 a Queensland cement manufacturer also began to carry its own raw materials intrastate using a bulk carrier bought from ANL. Department of Transport and Communications, *Australian Shipping 1987*, AGPS, Canberra, 1987, p. 17.

<sup>142</sup> In 1985 the Tasmanian Government procured its own vessel for the Bass Strait following withdrawal of the ANL's *Empress of Australia*, and Brambles Limited introduced a container vessel. *Ibid.*, pp. 20, 21.

<sup>143</sup> "The action of the Government in forcing the ANL to withdraw its 25% increase in freight did nothing to help our situation. The Bass Strait freight rate in 1956 was \$11.60 per tonne plus wharfage, much in line with the charge today. What other industry would be supplying services at 1956 level?" Letter from Holyman's Managing Director to the Minister for Shipping and Transport. *The AFR*, 19/8/75.

chartering a more efficient vessel from Union, a substantial Holyman shareholder. Although ANL and BHP had recently won a similar concession, the Minister refused his permission unless Holyman committed to building a replacement in Australia at an unaffordable cost of \$12 millions.<sup>144</sup> Holyman thus lost its opportunity and its business continued to decline. The following year a new Government commenced the wind-down of the Australian shipbuilding industry.<sup>145</sup> Increased competition for cargoes between Tasmania and the mainland persisted, adversely affecting the ANL's profits, causing Holyman's withdrawal and sale of its last ship in 1985 and the reduction of Union's presence to two chartered vessels.<sup>146</sup> Whether the suppression of Bass Strait freight increases and unacceptable restrictions on importation of Holyman's vessel were erratic applications of ailing policies or an intentional attempt by the Minister to rid the ANL of a rival is unknown.

In 1965 the private sector of Australian shipping was apparently moribund in the wake of the ASO's collapse. By 1985 the sector was leaner because although restraints on shipbuilding and labour had been abandoned as outmoded, the remaining four competitive forces had winnowed out its least efficient operators and trades. However it appeared the private sector would survive in some form, mainly because the industry leaders, Smith and the TNT group, were profitable because of the success of their whose responses to the six forces. Both had shown how fresh management strategies could mitigate the forces' effects and sometimes turn them to advantage. Smith left the general cargo trades, sidestepping competition from substitutes strengthened by Government financial support, and freed its ships from ANL's rivalry by chartering them long-term at minimum risk to shipping's new users, the mining and manufacturing industries. TNT's strategy although less conservative also minimised risks. TNT too provided vessels for shipping's new users, packaging management expertise with capital that could be released to fund further expansion. But TNT continued successfully in general cargo by applying management expertise

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<sup>144</sup> In 1974 BHP had been allowed to import the *Iron Kirby* and *Iron Kestrel*, and in 1975 the ANL *Australian Emblem* and *Australian Escort*, all Japanese-built and of a size capable of construction in Australia. Department of Transport and Communications, *Australian Shipping 1987*, AGPS, Canberra, 1987, pp.19, 20.

<sup>145</sup> *The AFR* 5/11/75.

<sup>146</sup> The Bass Strait traders were relieved from the Government's insistence that ANL charge unrealistically low freight rates in 1977 by the introduction of the Tasmanian Freight Equalisation Scheme. This allowed shipping companies to charge economic freight rates and approved consignors to receive direct subsidies intended to equate the costs of shipping their goods to the mainland with those they would have incurred to move them the same distance on the mainland. *Ibid.* p. 153.

for these cargoes it had acquired in road haulage using a strategy that included spreading the risks over international and domestic trades. It also substituted its own inter-personal skills for those of employer associations in dealing with governments and trade unions. The success of Smith and TNT was under-pinned by adapting the latest technology to their needs. Among the smaller operators Miller turned Government policy to advantage by invoking the *Navigation Act's* restrictions on the entry of foreign flag ships to the coastal trade by gate-crashing the oil trades of the international oil companies. These successes gave private shipping a much-needed fillip. However the ANL had not responded as successfully as the private sector to its circumstances. By 1985 the Line was in financial trouble mostly attributable to international trading conditions and the effects of the six forces, especially Government policy.

### **Government Shipping: Competition and Developments**

From 1964 the ANL's profitability like that of the private companies suffered from the effects of the competitive forces of labour restrictions and competition from substitutes financially supported by the policies of its owner, the Government. From the mid-1970's the ANL also experienced the effects of the Government's financial policies for funding its entrance to international trades.

Under the supportive Minister for Shipping and Transport Gordon Freeth, in 1965 the ANL's success appeared assured.<sup>147</sup> It continued to expand and between 1965 and 1976 built seventeen new general cargo ships, imported four bulk carriers to develop its coastal and international trades and placed orders for several more.<sup>148</sup> However, Freeth lost his parliamentary seat in 1968 and was replaced by the Country Party's Ian Sinclair, whose new policy was thus defined by the ANL's Chairman, Captain Williams:

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<sup>147</sup> In his autobiography, ANL's chairman Sir John Williams thus described his relationship with Freeth. "Once again we were fortunate. Like his predecessors he [Freeth] was a devotee of private enterprise and followed the Shane Paltridge [the Minister responsible for establishing the ANL] approach of maintaining strict control and knowledge of the business, yet avoiding the niggling interference we were to face later." Captain Sir John Williams, *So Ends This Day*, Globe Press, Melbourne, 1981, p.204.

<sup>148</sup> Eleven vessels ordered were for the coastal general cargo trades, including four new Ro-Ro ships for the coastal liner trades between Melbourne, Sydney and North Queensland, and a hybrid bulk/container vessel for the Darwin trade to carry bulk cargoes on the southward leg. The bulk carriers were for BHP's heavy trades and the Christmas Island phosphate trade. Six more general cargo vessels were delivered for the ANL's new international trades. Department of Shipping and Transport, *Australian Shipping and Shipbuilding 1977*, AGPS, Canberra, p. 22.

To our surprise, not long after his appointment, Sinclair informed us that we should now regard the Commission as what he termed a 'Political Instrument,' subject to control by his Departmental officers, overlooking the fact that it had been set up by Sir Robert Menzies to operate free of interference on a private enterprise basis.<sup>149</sup>

In 1969 a reduction in profits indicated that the ANL's performance was faltering and in 1971 it reported its first annual loss.<sup>150</sup> The Line's Chairman, Sir John Williams' account of the ensuing struggle between the Minister's department trying to wrest control of the ANL, and the Commission trying to retain it, holds this politicisation of the ANL accountable for the loss.<sup>151</sup> When Williams retired in September 1971 after fifteen years as the Line's Chairman, he was replaced by a senior public servant of the Minister's department, indicating that in future the ANL would be under direct ministerial control.<sup>152</sup> Perhaps coincidentally, this substitution of political requirements for commercial principles marked the beginning of a number of loss-making policy decisions for the ANL by the Government, leading to chronic financial losses that threatened the whole industry's future because of the Line's dominant position.

One example, reminiscent of the Line's earlier direction into the unprofitable Christmas Island phosphate trade, was the construction of a hybrid bulk/general cargo vessel for the thin Darwin trade that was soon incurring annual losses because of cargo insufficiencies. A more serious effect on ANL was the ingenuousness underpinning its entrances to the international liner and bulk trades. Strong rumours the ANL would enter the international general cargo liner trades approached realisation when, several years before his retirement, the Government sent Williams overseas to investigate the feasibility of the ANL's participation in the foreign liner trades.<sup>153</sup> His report included the recommendation that:

Government approve in principle that the Australian National line enter a liner trade on a commercial basis where it is to the advantage of the trade of the Commonwealth for it to do so

and,

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<sup>149</sup> Williams, *So Ends This Day*, op. cit. pp. 212-213.

<sup>150</sup> By 1969 the ANL's profit had fallen to \$1.03 millions, "the lowest in the history of the Commission" and its dividend to Treasury to 3%, in part attributed by its Chairman to costs associated with entry to the overseas liner trades. Australian National Line, *Annual Report 1969*, p.4.

<sup>151</sup> Williams, *So Ends This Day*, op. cit. p. 213.

<sup>152</sup> Sinclair was replaced as Minister in 1971 by P.J.Nixon. Australian National Line, *Annual Report 1971*, p.7.

<sup>153</sup> E.g., H. Holt (Federal Treasurer) reported in *The SMH*, 9/8/65, J. McEwen (Minister for Trade) reported in *The SMH* 13/12/65, and a recommendation by ANL itself reported in *The AFR* 12/9/67.

that the initial approach should be in the Japanese sector but with extension to other trades as necessary or advisable.<sup>154</sup>

In Cabinet, Freeth strongly endorsed Williams' recommendation as providing "clear and immediate prospects of viable entry to this trade," adding there was no alternative to using the ANL, as no Australian shipowner had shown any desire to participate in the trade.<sup>155</sup> Shortly afterwards, Cabinet authorised Freeth to commence discussions with the Japanese Minister of Transport, and subject to their success, to order a suitable vessel for the ANL's entry into the Japanese liner trades.<sup>156</sup> Pursuant to Cabinet's decision, Williams and Freeth visited Japan and reported that the Japanese Minister for Transport welcomed Australia's entry through the ANL to the Australia Northbound Shipping Conference (ANSCON).

Conferences may be loosely described as an association of shipowners that fix common freight rates, jointly provide regular scheduled sailings and pool the revenues earned; a formal definition has been provided by the United Nations.<sup>157</sup> They are of two types, 'closed' that restrict entry and 'open' to which entry is unrestricted; both have rules with which their members are expected to comply. The Conferences that the ANL entered were closed and at the time of its entry operated by foreign lines, preponderantly European. Since Federation successive Australian Governments usually accepted the Conference system as best fulfilling the requirements of Australia's export and import trades.<sup>158</sup> Proponents of Conferences argue their necessity to ensure the efficiency, reliability, regularity of service and freight rate

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<sup>154</sup> J. Williams, *An Inquiry into the Effects of Modern Shipping Techniques and Trends on the Overseas and Coastwise Trades of Australia*, Melbourne, 1967, Recommendations 6 (a) and (b), p.5. A5842/2/6 NAA.

<sup>155</sup> Submission to Cabinet 463 10/9/67. A5842/2 Volume 15 NAA. Freeth's submission did not mention whether any private shipowners had been approached.

<sup>156</sup> Cabinet Decision 589, 26/9/67. A5842/2 Vol. 15NAA.

<sup>157</sup> A Conference is "A group of two or more vessel-operating carriers which provides international liner services for the carriage of cargo on a particular route or routes within specified geographical limits and which has an agreement or arrangement, whatever its nature, within the framework of which they operate under uniform or common freight rates and any other agreed conditions with respect to the provision of liner services." The United Nations Conference on Trade and Development. *United Nations Conference of Plenipotentiaries on a Code of Conduct for Liner Conferences*, Volume II, Annex 1, Part I, Chapter I, Definitions. Conferences are exempt from the penalties imposed for embargoes on restraint of trade by Part IV of the *Australian Trade Practices Act* provided they are regulated by a Conference Agreement lodged with the Clerk of Shipping Agreements, Canberra, that they act in concert to lift freight rates after negotiating with the Australian Shippers' Council and that the rates are then the subject of signed contracts between each individual Conference line and each individual shipper of the commodity under negotiation.

<sup>158</sup> The exception was the Government's Australian Commonwealth Line of steamers started during World War I and operated outside the Conference system until sold in 1928 because of its losses. Department of Transport, *Liner Shipping Report, An Industry Task Force Review of Australia's Overseas Liner Shipping Legislation*, AGPS, Canberra, 1986, p.49.

stability these international general cargo liner trades demand. However, Conferences arguably possess some monopolistic features, such as the ability to overcharge and restrict competition. Conflict of these anti-competitive features with Australia's *Trade Practices Act* is reconciled by its Part X that prescribes conditions to be met by Conferences to gain exemption from the restrictive provisions of the *Act's* Part IV.

When the ANL decided to enter the international liner trades significant changes to their organisation and operation had commenced, driven by the huge capital investment in ships and supporting shore equipment needed to containerise these services. These costs prompted the foreign shipping companies that comprised the Conferences to amalgamate in consortia to share the costs of the transition. The Line therefore sought as its trading partner Japan's Kawasaki Kisen Kaisha ('K'Line), a choice that Japan's Minister for Shipping considered might create difficulties with other Japanese shipping lines<sup>159</sup> Nevertheless, on assurances that the ANL was not seeking to increase 'K' Line's share of the trade, the other Conference members agreed the Eastern Searoad Service (ESS) that ANL and 'K' Line had formed could have 12.5% of the northbound, and 9% of the southbound trade.<sup>160</sup> The ANL and 'K' Line agreed each to contribute two ships to the ESS, and ANL's first 11,000 deadweight vehicle vessel was ordered from Kawasaki's shipyard. The ESS commenced in October 1969 with two ships, having meanwhile admitted another participant, the Flinders Shipping Company.<sup>161</sup>

The ANL's entry to the Japanese trade, and subsequently to others, took the form of the 'window' principle intended to provide an insight into the trade.<sup>162</sup> This involved the ANL allying with another Conference member, usually of the trading

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<sup>159</sup> The selection of Kawasaki Kisen Kaisha Ltd as ANL's partner may have been because ANL's Chairman, Williams, had a *rapproch* with K's President, Hattori, whom he described as "a man of his word, and that word sufficient." Williams, *So Ends This Day*, op. cit. p. 205. According to Freeth's submission to Cabinet, the ANL's alliance with the K Line had upset the President of its rival, the Japanese NYK Line, who was then in discussions with Sir Andrew Crichton, Chairman of the British P&O-dominated Overseas Container Lines Limited, to carve up the Australia/Japan trades 60% -40% between P&O and NYK, respectively. Cabinet Submission 579, 14/12/67. A5842/2 Vol.19. NAA.

<sup>160</sup> *The SMH*, 20/12/68.

<sup>161</sup> *Australian Enterprise* (ANL) and *Australian Searoad* (K Line). Flinders, a private company, jointly owned by Jardine Matheson (Hong Kong) and H.C. Sleigh Limited (Australian) later contributed two vessels but sold its interest and ships to ANL in 1975. Its participation casts doubt on Freeth's statement regarding private shipping's disinterest in overseas trades.

<sup>162</sup> John McEwen, Minister for Trade and Industry, coined the term in submitting to Cabinet that "This trend to improved transport efficiency [containerisation] carries with it strong arguments for Australia to secure an Australian window in these operations in the UK/Continent, USA and Japanese trades as a hedge against a near monopoly situation." Cabinet Submission 458, August 1967. A5842/2 Vol.15, NAA.

partner nation, in a service to which the ANL contributed one or two ships. Rather than fund these overseas ventures by capital injection the Government apparently ignored the cyclical nature of international shipping by allowing the ANL to borrow heavily overseas.<sup>163</sup> The maritime unions supported the ANL's entry to the overseas trades, although they did not assist its competitiveness by reducing manning.<sup>164</sup> However, not everyone was pleased, and one critic commented: "The dream of maritime Australia is now threatening to become a reality and is thus a greater threat to our national standard of living than most of our other national fantasies."<sup>165</sup>

In its first venture into the international liner trades, the ANL earned more than permitted by its Conference share, although after Ministerial pressure it later surrendered some of the excess to the other Conference members.<sup>166</sup> Concurrently, developments that led to the ANL's entry to the UK trade had been brought to Cabinet's notice in a submission from the Minister for Trade and Industry, Sir John McEwen.<sup>167</sup> These commenced with an approach to the Australian High Commission in London by Sir Basil Smallpeice, Chairman of the British company Cunard Limited, a 45% shareholder in Associated Container Transportation Limited (ACT).<sup>168</sup> Interviewed by the Commission's Sir Alan Westerman, Smallpeice said he wanted to see active Australian participation, Government or private, in his company's trades.<sup>169</sup> McEwen's submission believed the approach genuine, and that the benefit to Australia of ANL's presence would enable the Government to fulfil its "... implicit responsibility to ensure that freights and services are adequate, efficient and economic and provide safeguards that Australian exporters are not exploited by Conferences."<sup>170</sup>

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<sup>163</sup> "At the end of the 1960's, ANL borrowed a large amount of loan capital to finance new shore facilities including terminals and the expansion of its fleet, and its gearing ratio increased very rapidly." Peter Stubbs, *Australia and the Maritime Industries*, op. cit. p. 23.

<sup>164</sup> *The AFR*, 5/1/68.

<sup>165</sup> Professor R. Gates, University of Queensland. *The AFR*, 17/7/68.

<sup>166</sup> Williams, *So Ends This Day*, op. cit. p. 209.

<sup>167</sup> Cabinet Submission 458, August 1967, A5482/2 Vol. 15, NAA.

<sup>168</sup> ACT's vessels in the Australian trade were to be managed and operated by Associated Container Transportation (Australia) Limited ACT(A), registered in the UK. To some the window principle and management of the ship by ACT(A) implied a lack of the Government's commitment to a viable commercial shipping venture, which "one ship under the management of overseas trades is not." Crisis of Confidence, *The AFR*, 24/11/70.

<sup>169</sup> Smallpeice doubted, however, that Australian capital from private sources acceptable to his company could be found. Cabinet Submission 458, August 1967. A5482/2 Vol.15, NAA.

<sup>170</sup> McEwen's submission indicates Smallpeice's approach may not have been altruistic, but arose from concerns that ACT's larger rival in the Australian trades, Overseas Containers Limited (OCL) would dominate the trade and facilities in Australia and that an alliance with the ANL would safeguard his position. *Ibid.*

Cabinet decided there was sufficient interest in the proposal and authorised further study.<sup>171</sup> In August 1968 it decided in principle that the ANL would first charter, and then buy, from ACT one of the three ships being constructed for it in Germany. The ANL would then enter the UK trade under a proposal by the Department of Trade and Industry for a "...33-1/3 per cent share in an arrangement between the Commonwealth and the group [ACT], the group owning two ships and facilities, the Commonwealth one ship and a share of facilities at the Australian end."<sup>172</sup>

At this time British shipowners were receiving a 20% subsidy from their government towards the construction of new ships that was not forfeited by their charter to a third party. By chartering the ship before purchasing it from ACT, the Government therefore expected that the ANL would get the benefit of the British shipbuilding subsidy.<sup>173</sup> Construction of the vessel continued, and in 1969 the ANL was admitted to the Australia/Europe Conference with entitlement to 7.25% of all cargo.<sup>174</sup> Soon after, Sinclair announced that the British government would not permit the sale of a ship on which it had paid subsidy, and that the ANL would now purchase it at construction cost.<sup>175</sup> The charter rate originally negotiated with ACT included capital charges calculated on 5.5% of 4/5 of the ship's construction cost, and 6.66 % depreciation on gross cost, with the right to purchase the vessel at its depreciated value. The Cabinet's decision to purchase the ship increased its capital cost by 25% above the ships owned by the other members of the ACT consortium. Consequently, the vessel's annual operating costs were increased by an estimated \$0.45 millions, and its prospects of early profitability became dubious.<sup>176</sup> The ship, *Australian Endeavour*, entered service upon arriving in Sydney in September 1969. The onerous increase in operating costs was partly responsible for the heavy financial losses it incurred for the

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<sup>171</sup> Cabinet Decision 555, 7/9/67. A5842/2 Vol. 15, NAA.

<sup>172</sup> Cabinet Minute, 27/8/68, Decision 468 in respect of Submission 294, and attachments. A5868/2. Vol. 12, NAA.

<sup>173</sup> *The AFR*, 18/4/69.

<sup>174</sup> *The AFR*, 17/2/69.

<sup>175</sup> However, a joint submission by Sinclair and McEwen states the real reason that the vessel was bought instead of chartered was because the British seamen's union threatened that, if a ship subsidised by Britain was chartered to Australia and not manned by British seamen, the ACT ships would be subject to "continual unrest, perhaps a complete tie-up." Cabinet Submission 538 (Undated). A5882, Vol. 24 NAA.

<sup>176</sup> The Cabinet agreement stated "that no publicity be given to the industrial reasons for changing from charter to purchase. It could be indicated that immediate purchase was found to be a preferred proposition in the light of all the factors disclosed in the detailed negotiations." Cabinet Decision 938, 16/4/69. A5882, Vol. 24.

first two years of its operation.<sup>177</sup> The Government's ingenuousness evoked adverse comment from the press, and the parliamentary opposition was similarly critical of the Government's "vague shipping proposals."<sup>178</sup>

The ANL made similar use of the window principle and offshore borrowing to expand into more overseas trades.<sup>179</sup> Firstly, it entered the Australia /West Coast of USA and Canada Conference in 1971 with a 25% holding in a unit load/ Ro-Ro vessel.<sup>180</sup> Next, the Line announced it would enter the Australia/East Coast of North America trade in 1972 "in conjunction with Associated Container Transportation (Australia)" for which it again embraced the window principle.<sup>181</sup> In 1974 the ANL entered the Australia /Philippines and South Korea and Hong Kong trade with its ANLINE service, and in 1977 traded independently to initiate its ANRO service between Australia and Singapore/Malaysia.<sup>182</sup> In December 1972 the Coalition Government had lost office to a Labor administration. The new Minister for Shipping and Transport, Charles (C.K.) Jones, announced the Government's intention of expanding the ANL domestically and internationally.

The construction cost of the vessels and supporting equipment needed to enter the international container trades was substantial.<sup>183</sup> The ANL's fleet and equipment were substantially funded by debt that between 1973 and 1977 increased its total borrowings from \$55.7 millions to \$346 millions against total assets of \$461.2 millions.<sup>184</sup> Such a high debt level exposed the ANL to twin risks: a higher interest bill if exchange rates deteriorated and the need to pay it from declining revenue, if a

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<sup>177</sup> ANL's Chairman attributed the losses to "slow turn round and other disabilities suffered by every cellular ship owner in the trade," warning that the Commission "are not optimistic that profits will be forthcoming in the immediate future." *The Australian National Line, Annual Report 1971*, pp. 5-6.

<sup>178</sup> *The AFR* 23/4/69. "Confused Government Accounting for Container Vessels," quoting E.G. Whitlam, (Labor) Member for Merriwa. *The SMH*, 23/4/69.

<sup>179</sup> In some quarters the use of the window principle to minimise the contribution of risk capital was also taken as a lack of sincerity by the Government. For example, one comment regarding ANL's entry to the Australia/Europe liner trades was that it "should be a viable commercial venture which one ship under management in overseas trades is not." *The AFR*, 24/11/70.

<sup>180</sup> ANL's partners in the vessel *Allunga* of the Pacific Australia Direct Line (PAD) were Transaustral Shipping Pty Limited (a subsidiary of Sweden's Transatlantic Line) and the Australian company Elder Smith and Company Ltd. *The Australian National Line, Annual Report 1971*, p. 5.

<sup>181</sup> The ANL entered one cellular container vessel in ACT(A)'s, service from Australia to the East coast of the USA. *The Australian National Line, Annual Report 1973*, p. 4.

<sup>182</sup> *The Australian*, 26/6/75, and *The Australian National Line, Annual Report 1977*, p.3. Four other companies, Neptune Orient Line Limited, Nedlloyd (Singapore) Limited, OCL and Swire joined the service later.

<sup>183</sup> The cost of the six vessels of the British OCL consortium was US \$100 millions and their containers another \$85 million. (\$A 264 millions). *Ibid.* p.29.

<sup>184</sup> *The Australian National Line, Annual Report 1973*, p. 12, and *Annual Report 1977*, p. 14

future recession in international shipping reduced cargoes and depressed freight rates. By then the Line could be considered as imprudently extended financially, especially as it had lost \$9 millions in the preceding year due to the international shipping recession by then under way but still had to meet interest payments. By 1980 the Line had entered six major international liner trade Conferences through the alliances shown in Table 7.2.

**Table 7.2**

**Consortia and Participation of the Australian National Line, 1980**

Route	Vessels	Consortium	Partners
Europe/UK	2x container	ACTA	ACT consortium
Japan	2xRoRo	ESS	K-Line, NYK, MOL, YS
Eastern USA	1xcontainer	PACE	ACT consortium
Western USA	1xRoRo	PAD	Brostrom, EAC
Hong Kong, Taiwan Philippines	2xRoRo	ANLine	Asia Australia Express, OOCL
ASEAN	1xRoRo	ANRO	NOL, OCL, Swire,Nedlloyd

Source: Broeze, *Globalisation of the Oceans*, op.cit., 63<sup>185</sup>

International shipping is so truly a global industry that changed circumstances in one sector are so quickly transmitted to others that virtually all experience its effects to a greater or lesser extent. This applies especially to the industry's booms or recessions, so that only the best managed and financially sound companies can survive. Soon after the new Government's election a severe recession in international shipping commenced. It resulted from the crisis created when Arab nations cut back oil production, driving up fuel costs to unprecedented heights. The succeeding increase in production costs depressed the level of world economic activity and freight rates tumbled as demand for shipping declined. There were several direct consequences for shipping. The cost of bunkers mushroomed in a recession restrictive

<sup>185</sup> Frank Broeze, *The Globalisation of the Oceans: Containerisation from the 1950s to the Present* International Maritime History Association, St. John's, 2002, p. 63

of freight rate increases.<sup>186</sup> As 1974 opened, virtually no ships were idle but the year closed with a surplus of 55 million tons laid up. The problem was compounded by the number of new ships on order worldwide that by mid-1974 had reached a record of 133.5 million gross tons, doubling the size of the world fleet in ten years.<sup>187</sup>

These international conditions brought competition from several new entrants.<sup>188</sup> Owners of laid-up tonnage accepted low charter rates and a world surplus of containers available for lease cheaply enabled non-Conference newcomers such as Flags of Convenience (FOCs) to enter the liner trades with little commitment of capital.<sup>189</sup> They competed directly with the established Conferences, cutting their tariffs, targeting cargoes that attracted high freight rates to and from low-cost ports and leaving the cheap freight for the Conferences. Then there were the freight forwarders that had no vessels but took advantage of the container glut to offer shippers of the high paying cargoes FAK rates by consolidating them with lower paying cargoes, so using both the cubic and deadweight capacity of their containers.<sup>190</sup> Transit to destination was usually intermodal by routes combining land transport with one or more sea passages bought cheaply from the Conferences because of their surplus capacity.<sup>191</sup> In the mid-1970's the heavily subsidised national flag carriers of the COMECON countries also penetrated the regular Conference routes.<sup>192</sup> Sometimes these competitors traded independently, sometimes they joined Conferences that were open to them.<sup>193</sup> A number of emerging nations were also claimants to a share of the Conferences' cargoes by reserving, with UNCTAD's encouragement, a proportion of their countries' trades to their national flag shipping

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<sup>186</sup> Between 1973 and 1980 fuel costs increased by 1,200%, from representing 2.5-4% to 22-25 % of cargo liner operating costs.

<sup>187</sup> *Fairplay International Shipping Weekly*, 7/11/74, p.9..

*The Weekend Australian* 12-13/1/83. Shipbuilding is a substantial supplier of labour and the glut of ships was partly caused by the governments of developing nations subsidising the construction of ships to displace the established shipbuilding nations.

<sup>188</sup> *The AFR*, 25/10/72.

<sup>189</sup> Australian exporters benefited from these new entrants. "Competition from non-Conference shipping has been accompanied by a reduction in freight rates in real terms in some trades . e.g a substantial drop in rates for wool and meat has occurred in the Europe and North America Trades." Department of Transport, *Liner Shipping Report*, op. cit. p. 13.

<sup>190</sup> FAK, the acronym of Freight All Kinds, is the rate payable when the nature of a container's contents are unspecified.

<sup>191</sup> The Trans-Siberian Railway was one land route frequently used by freight forwarders.

<sup>192</sup> COMECON is the acronym of the Eastern European Economic Community, comprising an economic bloc of the then East European Communist countries.

<sup>193</sup> The Soviet owned Far Eastern Shipping Company (FESCO) had become a strong competitor of ANL and other Conference lines. The Australian National Line, *Annual Reports 1977 and 1978*, p.5. and p.3, respectively.

lines. Finally, the bulk carriers and tramp ship operators, the worst hit by the effects on freight rates of the oil price crisis, also diversified into the liner trades by cheaply chartering surplus container tonnage and again targeting the best-paying cargoes.<sup>194</sup>

The combined effect on Australia's Conference trades in which the ANL participated was that by 1979/80 these new entrants carried 1.857(28%) and 1.595(19.6%) million revenue tonnes of Australia' export and import trades respectively.<sup>195</sup> As the recession deepened and competition from new entrants increased so did the effects on the ANL.<sup>196</sup> Their early manifestation appeared in the losses in 1979 of the PAD service to the west coast of North America, in which ANL had a 25% interest. The ANL's overseas liner trades were collectively unprofitable in 1980 before returning briefly to profitability in 1981.<sup>197</sup> By 1983, "... shipping worldwide moved into its worst recession for fifty years. Over 100 million dwt. comprising 1,740 vessels were laid-up, a quarter being dry cargo vessels representing some 7 per cent of the world dry cargo fleet."<sup>198</sup>

The ANL's domestic general cargo trades were likewise unprofitable. An important factor was the Government's continued use of its Line as an instrument of policy by refusing to allow it to cover increases in wage and other costs by raising freight rates. Its Chairman thus summarised the effects of the freight policy:

In previous reports I have referred to the inevitable effect on the profitability ... which would follow the holding down of coastal freight rates and the absorption of rising costs ... [Thus] the profit before tax for the period under review has fallen from \$3,220, 480 earned last year to \$1,028, 791, the lowest in the history of the Commission and permitting a dividend payment to the Commonwealth Treasury of only 3%, leaving nothing to transfer to reserves.<sup>199</sup>

When freight rate increases were eventually granted in 1970, they were inadequate, because,

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<sup>194</sup> One instance was of the Antwerp (later Luxembourg) based ABC Line that built vessels able to carry readily available bulk cargoes (such as Western Australian mineral sands to the USA) as well as well-paying general cargoes (such as refrigerated goods to Europe) in a scheduled round-the world-service on substantially discounted Conference terms.

<sup>195</sup> The effect on freight rates from competition by non-Conference shipping was a reduction in real terms in some trades, especially for wool and meat in the Europe and North America trades. Department of Transport, *Liner Shipping Report*, op. cit. p. 13.

<sup>196</sup> "... the effect of growing non-Conference competition at a time of over-tonnaging in present conditions has caused further erosion of freight rates and consequent substantial fall in profitability." The Australian National Line, *Annual Report 1979*, p. 5.

<sup>197</sup> Thus "Overseas liner services ... traded at an overall loss." The Australian National Line, *Annual Report for 1980*, p. 3. In 1981 "The Overseas Liner Division returned to overall profitability this year." The Australian National Line, *Annual Report 1981*, p. 4.

<sup>198</sup> The Australian National Line, *Annual Report 1983*, p. 4

<sup>199</sup> The Australian National Line, *Annual Report 1969*, p. 4.

... considering first the coastal sector of the business; after an enforced freight standstill for a number of years, and to which I have drawn attention in earlier Annual Reports, Ministerial Approval to an upward adjustment in general cargo rates of 12½% was forthcoming earlier in the year. This unfortunately was insufficient even to meet cost rises then in prospect on account of increased wage rates and fuel prices and has contributed to a situation whereby the result for the twelve months work has produced a loss [in the coastal general cargo trades] of \$452,479.<sup>200</sup>

The Government's refusal to allow justifiable freight increases was probably politically popular because it also effectively held down increases by independent owners concerned they would lose market share to their rival if they raised freight rates especially in the services to Tasmania.<sup>201</sup> However, this illogical attitude towards freight rates necessitated a huge rise of 40% in 1975, and the new Coalition Minister had to sanction further spectacular increases in the Bass Strait, rates ranging between 188% (for containers) and 85% (for other cargoes) in 1976.<sup>202</sup> Meanwhile in 1984, two new competitors for ANL had emerged in the Bass Strait trade. The Tasmanian government entered the trade in competition with the subsidised service provided by the ANL's loss-making *Empress of Australia*, and the transport company Brambles Limited began a cargo service to north Tasmania.<sup>203</sup> The Line's intrastate general cargo service to north Queensland had started in 1978 after the Queensland government withdrew its opposition.<sup>204</sup> It never achieved sufficient cargo volume for viability against railway competition and was terminated in 1985 with losses exceeding \$6 millions.<sup>205</sup>

Meanwhile, with ANL's participation in the international general cargo trades well advanced, the Minister turned his attention to securing for the ANL a share in Australia's export trade of iron ore to Japan, but without prior discussion with Australia's trading partner. In November 1973, the ANL ordered two 120,000

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<sup>200</sup> The Australian National Line, *Annual Report 1971*, p. 3.

<sup>201</sup> Although the Minister C.K. Jones directed the ANL to provide a shipping service to Tasmania, believing it "desirable in the public interest, ... no instruction regarding the recovery of costs on Tasmanian services" was issued. Peter Stubbs, *Australia and the Maritime Industries*, op.cit. p. 22.

<sup>202</sup> *The AFR*, 23/7/75 and *The AFR*, 24/6/76.

<sup>203</sup> The ANL reacted to "...the present substantial over-capacity bringing with it the prospect of long term instability in this important trade ..." by withdrawing its ageing *Empress*. Ibid. p. 10.

<sup>204</sup> Ibid. p. 4. In January 1977 the ANL had to exclude Port Alma from its Tasmania to Queensland service because, to protect its railways, the Queensland government refused to allow the ANL to carry cargo from Port Alma to Mackay. *The Australian* 6/1/77. Fifteen months later the Queensland government asked the Federal Government to waive the restriction on intrastate trading imposed on ANL by the *Coastal Shipping Act*. However, the ANL's direction into the Queensland intrastate trade added another to ANL's list of unprofitable services. *The AFR*, 27/4/78. The Darwin trade relied for its southbound cargoes on manganese ore mined on Groote Eylandt by BHP. The quantity mined steadily decreased after 1978 and the ANL incurred substantial losses, even with an annual subsidy of \$1.5 millions. The Australian National Line, *Annual Report 1978* p. 4

<sup>205</sup> The Australian National Line, *Annual Report 1985*, p. 10.

deadweight tonne bulk carriers from Sweden and two more of 139,000 tonnes from Germany for the Japanese ore trades. The orders were placed at the crest of a shipbuilding boom that coincided with the start of the severe global shipping recession induced by the oil crisis of 1973 whose effects soon appeared in international bulk trades as new competition.<sup>206</sup> For example, as demand for oil fell some tanker owners whose ships would otherwise have been idle cleaned them and entered other bulk cargo markets, especially wheat. Competition from cheap flag-of-convenience owners, to whom a large volume of laid-up, ageing bulk tonnage, ideally suited to rough cargoes such as iron ore, was available cheaply was especially felt by owners like the ANL who had invested in modern, well-found ships for these trades.

It was in this situation that the first of the ANL's new, large bulk carriers arrived seeking work. The Japanese steel mills, whose cargoes they were intended to carry, claimed that they had not been consulted regarding the entry of the ships to their trades and, therefore, had no obligation to use them. The high capital charges resulting from their provenance, the timing of construction and the high costs of Australian crews inflated their operating costs to a level where the freight rate required for profitable operation far exceeded freight rates for iron ore, depressed by recession.<sup>207</sup> They were, therefore, rejected by their intended charterers as too expensive for employment.<sup>208</sup>

As August 1976, the delivery date for the first ship, approached, discussions with the prospective charterers intensified. Protracted negotiations for the vessel's employment when it arrived in 1976 ended with the ANL having to accept a freight rate too low to cover the vessel's operating costs.<sup>209</sup> In February 1977, the second vessel arrived, also without work, and anchored off Dampier at a daily cost of \$20,000 while negotiations for its employment proceeded.<sup>210</sup> Temporary work for the ship was eventually obtained, followed by the conclusion of a three-year charter on

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<sup>206</sup> *Australian Pioneer/Progress/Prospector/Purpose*.

<sup>207</sup> "Shipping sources say that the vessels could be purchased today at prices substantially below those the ANL agreed." *The AFR* 10/9/75.

<sup>208</sup> The steel mills claimed that the use of ANL's 'P' class vessels would raise the iron ore freight rate from \$US 6 to \$US 9 per tonne. *The Australian*, 18/9/75.

<sup>209</sup> ANL asked for a freight rate of \$US 8.50 per tonne for the *Australian Pioneer* but had to accept \$US 6.00. "Like the other three the *Australian Pioneer* was ordered at the height of the world shipping boom. When it was delivered the industry was in a state of deep recession and freight rates had fallen dramatically." *The SMH*, 18/1/77.

<sup>210</sup> *The AFR*, 2/2/77.

the same loss-making terms as its sister of \$US 6 per tonne.<sup>211</sup> A condition of the charter required an undertaking by the ANL not to attempt to introduce the other two vessels still building into the Japanese trades until two years had elapsed, during which time the ANL bore the expense of their idleness.<sup>212</sup> The expense of laying-up these ships, built on orders of the preceding Government without certainty of their employment, contributed to the ANL's losses and earned it adverse publicity.<sup>213</sup> The delivery of the third and fourth vessels further increased the Line's losses, and more embarrassment of a different nature followed for the Government.<sup>214</sup> In an attempt to influence potential Japanese users to charter the two laid-up ore carriers, the seagoing unions delayed several Japanese vessels and threatened others, while the Government tried to repair damaged relations with an important trading partner.<sup>215</sup>

Meanwhile the Minister had attempted to secure a 40% share in crude oil imports almost all of which were carried in foreign flag tankers for Australian shipping.<sup>216</sup> The plan required six tankers of 75,000 tonnes deadweight, of which three were to be provided by ANL, and three by private companies.<sup>217</sup> It ended unsuccessfully with insinuations the Minister was favouring the Line over the private sector apparently supported by his dialogue with a journalist:<sup>218</sup>

Q: Are you hindering any other Australian company from putting tankers into the overseas trades?

A: I have asked them to hold off because I want the ANL in and I am having difficulties in getting the ships I want.

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<sup>211</sup> "Losses of \$16 millions per annum for the four ships are confidently predicted from a wide variety of sources." *The SMH*, 7/4/77.

<sup>212</sup> *The AFR*, 4/2/77.

<sup>213</sup> ANL lost \$4.708 millions and \$7.989 millions in the years ending June 1979 and 1980 respectively. *The Australian National Line, Annual Reports 1979 and 1980*, p.2, p.3, respectively.

<sup>214</sup> At the launch of the 3<sup>rd</sup> vessel of the class, *Australian Progress*, ANL's Chairman, N.G. Jenner, told a press conference that he "did not expect the ship to make money in the first three years of service", and that the first ship (*Australian Pioneer*) was "losing a hatful of dollars each voyage." *The SMH*, 11/4/77.

<sup>215</sup> *The AFR*, 2/2/77.

<sup>216</sup> This refers to the 40-40-20 Convention proposed by United Nation Committee for Trade and Development (UNCTAD) whereby 40% of international trade should be reserved for the liner trades of the exporting and importing countries, and 20% allowed to others. *The AFR*, 10/4/74. Although Australia had not signed the Convention, Jones had stated in his earlier press interview that an "in principle" decision had already been made by Government to apply the 40% rule to Australian crude oil imports. *The AFR*, 5/12/75.

<sup>217</sup> *The AFR*, 14/1/75.

<sup>218</sup> "I have supported this policy that advocates the use of Australian ships looking after the coastal trade in entirety and having an equitable share of overseas trade routes. Except to the extent that ANL has ordered large bulk carriers, I have seen little tangible support for the independent shipowner to further the 40-40-20 policy of Government." Review of company operations for 1973 by Howard Smith's Managing Director and Chairman. *The AFR*, 10/4/74.

Q: But surely it would be better to have the Australian flag on a private stern than no flag at all?

A: Let's get one thing clear – I want the ANL in that trade.<sup>219</sup>

The scheme culminated in more ministerial embarrassment and its abandonment when the Attorney-General pointed out that it would contravene the *Trade Practices Act*.<sup>220</sup> In 1974 the Minister further angered the private sector in an attempt to improve the ANL's profitability by altering its status to that of a public authority that would render it exempt from sales and income taxes and eligible to receive subsidies.<sup>221</sup> However, the ASOF demonstrated it still had teeth, and threatened litigation, which resulted in the *Australian Shipping Bill (1974)* being dropped.<sup>222</sup>

ANL's losses in its overseas bulk trades were compounded by those in its coastal bulk operations. The effect on BHP's fleet of the 1977 recession was short-lived but not for the ANL to which its coastal bulk trades remained as fundamentally important as they had since its establishment. Thus, by 1979, "Bulk shipping activities in general - or the lack of them - appear to be the main contribution to ANL's downfall,"<sup>223</sup>

ANL's coastal bulk trades were dealt a further severe blow when the downturn in the Australian economy that began in 1982-83 threatened a recession in the domestic steel industry more severe than that of 1977.<sup>224</sup> Meanwhile, BHP, anticipating another shipping surplus, had terminated ANL's contracts in 1981, effective 1983, and thereafter used its own fleet for its shipping needs.<sup>225</sup> This ended a relationship between Government shipping and BHP first begun in the 1940s, when the ASB imported foreign vessels to maintain BHP's wartime production. Five of BHP's own fleet were laid up for varying periods and two were sold.<sup>226</sup> Four of the

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<sup>219</sup> *The AFR*, 12/3/74.

<sup>220</sup> *The AFR*, 19/2/75.

<sup>221</sup> Under Section 23(d) of the *Income Tax and Social Services Assessment Act*.

<sup>222</sup> *The AFR*, 9/10/74. Between 1965 and 1976 the ASOF acquired several more members, including the oil company Ampol and Burke.

<sup>223</sup> *The Australian*, 28/6/79.

<sup>224</sup> D.M.Riley & D. Crisp, *The Iron Ships*, op. cit. p. 102.

<sup>225</sup> The Australian National Line, *Annual Report 1981*, p.4.

<sup>226</sup> Riley, Denis M, & Crisp Dale, *The Iron Ships*, op. cit, p. 94. Bulkships' earlier insistence that BHP accept the operational risks of the Bulkships vessels it used by employing them on demise charter, avoided the effects of downturn in the steel industry.

ANL's older vessels also became surplus and were sold.<sup>227</sup> The ANL was also finding it difficult to obtain cargoes for its vessels in other coastal bulk trades. For example, two bulk carriers ordered by ANL from the New South Wales State Dockyard to distribute phosphate from a nascent Queensland mining venture were completed in 1978, but remained laid up for over twelve months at ANL's cost because this trade failed to develop.<sup>228</sup> To compound the problems in ANL's bulk trades a long-lasting strike by shore labour in early 1978 at the Pilbara loading ports delayed its large bulk carriers further eroding their trading results.<sup>229</sup> The ANL's Darwin trade had received a Government subsidy of \$1.5 millions annually since 1978. By the 1980's this was insufficient to keep the service profitable against a combination of road transport competition and reduced shipments of manganese ore from BHP's Groote Eylandt mine that provided the ships with back-loading. Thus in 1984, with an expected annual loss of \$4 millions, the service was ended.<sup>230</sup> Meanwhile the Line continued its losses in the Christmas Island phosphate trades into which the Government had directed it. In 1974 the Minister tried to reduce losses by purchasing a more suitable vessel, the cost of which boosted the freight rate by \$3 attracting criticism from supplier and users.<sup>231</sup> However, the ANL's losses in the phosphate trade continued and in 1984 were still adding to the Line's financial difficulties.<sup>232</sup>

The ANL incurred its first loss of \$2.5 millions in 1971, was briefly returned to profitability in 1977 and 1978 by management initiatives and less industrial disputation and thereafter results became increasingly uncertain but trended always further downward during the remainder of this period. From the mid-1970's as the effects following the 1973 oil crisis took their course, the Line's successive Annual Reports contain comments by its Chairman on the adverse effects on profitability of domestic and international recession, of which those of 1983 are one example.

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<sup>227</sup> The Australian National Line, *Annual Report 1978*, p.3.

<sup>228</sup> Lay-up costs of between \$10,000 and \$14,000 were incurred daily by the ANL in respect of each of the 27,000 tonne *Selwyn Range* and *Flinders Range*. These, the last ships built by the Newcastle State Dockyard at the instigation of the previous Labor Government, were ordered to distribute the product of BH South's failed attempt to mine its Queensland "Duchess" Phosphate deposits. *The Australian* 14/4/78.

<sup>229</sup> *Ibid.*

<sup>230</sup> The Australian National Line, *Annual Report for 1984*, p.13.

<sup>231</sup> *The AFR*, 31/10/74 and *The Australian*, 31/12/74. The ANL acquired the *Baron Cawdor* for \$9 millions.

<sup>232</sup> "The Line is concerned about the high cost of servicing the phosphate business having taken over at high cost chartered tonnage from the British Phosphate Commission ..." *The Australian National Line, Annual Report for 1984*, p.14.

## *The Australian Shipping Industry*

In the event however all trading areas have experienced a sudden further severe downturn during the second quarter of the year and shipping worldwide moved into its worst recession for 50 years. Over 100 million dwt. comprising 1,740 vessels were laid-up, a quarter being dry cargo vessels representing some 7 per cent of the world's dry cargo fleet.<sup>233</sup>

The effects manifested themselves in heightened competition by established players and new entrants who were often prepared to pare real freight rates to obtain the diminished amount of freight offering. The downward pressure on profits exerted by these circumstances was exacerbated for the ANL by the need to service the interest on its substantial debt undertaken in times of better cargoes and stable exchange rates.

The early philosophy was that ANL would raise money through Consolidated Revenue. But as overseas trades developed it was able to avail itself of shipbuilding credit. There has been a significant development in this area and the general thrust now is to remain outside the budget and to borrow money on the open market whether it be shipbuilding credit or onshore/offshore borrowing.<sup>234</sup>

The risks of this policy soon became apparent in a standard indicator of under-capitalisation, the Line's financial gearing ratio that progressively rose from 10:1 in 1976, to 12.6:1 in 1978 and 13.94:1 in 1980. As its Chairman commented,

Last year I reported that the gearing ratio was 10.1:1 at 30th June 1976. As at 30<sup>th</sup> June 1977 it was 13.6 and, during this year interest costs incurred on borrowings were \$27.553 million compared with \$18.765 million last year.<sup>235</sup>

The ANL's weak annual results reflect the difficulties it was experiencing in meeting its interest on large foreign currency loans in the conditions of an international shipping recession, as well as the recession's effects on freight and freight rates.

**Table 7.3**  
**ANL Financial Results, 1973-1985 (\$'s mils)**

Year	Prof/(Loss)	Acc. Loss	Loans*	Year	Profit/(Loss)	Acc. Loss	Loans*
1973	2.61	(3.51)	55.65	1980	(7.99)	(24.33)	226.58
1974	1.69	(1.82)	63.30	1981	7.08	(17.25)	204.73
1975	(9.95)	(11.77)	124.87	1982	2.54	(14.72)	218.22
1976	(9.44)	(21.21)	218.69	1983	(26.19)	(40.91)	139.62
1977	3.9	(17.3)	346.00	1984	(67.75)	(129.50)	268.50
1978	5.69	(11.63)	329.56	1985	19.05	(110.45)	227.743
1979	(4.71)	(16.34)	369.29				

Source: ANL Annual Reports for relevant years

Note: \*This column comprises what the ANL's Annual Reports variously classify as Loans, Leases and Borrowings.

<sup>233</sup> Chairman's Review, *The Australian National Line, Annual Report 1983*, p. 4

<sup>234</sup> *The Australian*, 1/10/81.

<sup>235</sup> *The Australian National Line, Annual Report 1978??*, p. 3.

Table 7.3 lists the ANL's results, loans and accumulated losses for the thirteen years post the 1973 oil crisis, during which the Line became chronically unprofitable.

It was in this period that ANL's major borrowings to finance its new vessels occurred, particularly those for its international trades. In 1976-77 alone, for example, the Line ordered its four coastal bulk carriers from Japan and launched or introduced seven more domestic or international traders, including three of the expensive bulk vessels for the Japanese ore trades. It is, therefore, arguable that ANL would have survived the international recession that was under way in better condition had it not incurred the debts with which it funded an expansion of this scope at such a time.

In the year to 1982-83 the ANL lost \$26 millions, to which the Labor administration that succeeded the Liberal/National Coalition Government responded by meeting with the seagoing unions and the ACTU to discuss the terms on which the Government would supply financial assistance. These were consolidated in a Memorandum of Agreement that stated:

In recognition of the serious financial and operational difficulties being experienced by the Australian National Line ... Australian seagoing maritime unions agreed to a request by the Federal Minister for Transport ... to discuss the difficulties with the objective of finding mutually acceptable and lasting solutions to them.<sup>236</sup>

Essentially, the agreement reached provided the Government would contribute \$30 millions in capital, convert \$60 millions of Government loans to ANL into capital and extend the payment period of the ANL's current loans.<sup>237</sup> In return, three of the unions agreed to reduce their manning by one man on most ANL ships, and the SUA to reduce its manning by 40 across the ANL fleet.<sup>238</sup> However, as the marine unions denied any responsibility for ANL's condition, the agreement notably omitted any requirement for efforts by the unions to reduce industrial disputation.<sup>239</sup> In 1984, the year after this first Government capital injection, the ANL incurred a catastrophic loss of \$67.75 ascribed by ANL's Chairman to anticipated losses on vessels earmarked for

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<sup>236</sup> Papers of Merchant Service Guild of Australia, N.G. Butlin Centre, ANU, Canberra, Memorandum of Agreement Between Commonwealth of Australia, Australian Shipping Commission, Australian Council of Trade Unions and Seagoing Maritime Unions Concerning ANL Operations, p. 1. P102/27, NGB.

<sup>237</sup> Ibid. p. 2. The finance was effected by *The Australian Shipping Amendment Act (1983)*.

<sup>238</sup> However, the agreement ignored the problems of private owners by including a statement that the crew reductions would "apply to ships owned or operated by the ANL only." Ibid. pp.5,6.

<sup>239</sup> "The unions do not accept that they are to blame for the current state of the ANL." *The Seagoing Unions, Proposals for the Efficient Development of the Australian Maritime Industry Prepared by the Seagoing Unions*, 11/5/84, p.1, P102/27 NGB.

sale, foreign exchange losses and "...action taken by the Commission to properly reflect the unsound structure of the Commission by recognising the inadequacy of past vessel depreciation policy."<sup>240</sup>

The ANL's *Annual Report* for 1984 shows assets of \$403.563 millions were exceeded by liabilities of \$407.215 millions, a deficiency of \$3.652 millions that rendered the Line technically bankrupt and in 1984-85 the Government decided to supply another \$70.5 millions of additional capital.<sup>241</sup> At the end of that financial year the *Annual Report* recorded an operating profit of \$41.46 millions, reduced to \$22.406, principally by more foreign exchange losses after devaluation of the Australian dollar.<sup>242</sup> Referring to the ANL's accumulated losses, its non-payment of dividends and income tax liability, Stubbs comments: "No commercial enterprise could have survived such an experience but, like many other state instrumentalities, the ANL has not been subject to market criteria."

Like all the industry, ANL's profitability was depressed by several of the forces of shipping's explanatory framework. One force was certainly the costs of a high level of labour disturbances, of which the ANL appears to have suffered more than its share. An important source of this unrest was union resistance to reduction in employment due to the continuing introduction of labour-saving technology. While many disputes involved employers, others were quarrels among the unions themselves over work demarcation issues because "As the number of ships was slowly falling the Maritime unions had resorted to industrial action to maintain their membership ..."<sup>243</sup>

By 1979 industrial disruption had reached such proportions that the ANL met with the seagoing unions to express its

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<sup>240</sup> The loss of 1982-83 resulted from the continuing world shipping recession. The Australian National Line, *Annual Report 1983*, p. 4. In its annual report, ANL's new Chairman, Mr Bolitho, explained that the reason for its extraordinary loss of 1984 was the bringing to account in 1983-84 of "anticipated loss on sale of those vessels marked for disposal in the 1984-85 financial year based on their true market value, foreign exchange losses on capital account, and the adoption of lease effect accounting." The Australian National Line, *Annual Report 1984*, p. 4.

<sup>241</sup> To support its action the Government appointed Mr Justice Everett to review the ANL's financial performance. In March 1987 he reported that "... the appropriation of \$70 millions for the purpose of providing additional capital for the Australian Shipping Commission ... was not only justified but, in the commercial conditions at the time, was imperative." The Interstate Commission, Justice M.G. Everett, President, Review of the Financial Performance of The Australian National Line, op. cit. p.48.

<sup>242</sup> On the insistence of the recently elected Labor Government, ANL paid its first dividend since 1969 of \$5 millions. The need for adjustments was explained away as "... principally from foreign exchange losses on long term debt, arising from the devaluation of the Australian dollar consequent upon the deregulation of the Australian financial markets by the Australian Government."

The Australian National Line, *Annual Report for 1985*, p. 6

<sup>243</sup> J. Crawford, *Revitalisation of Australian Shipping, an Overview*, op. cit, p.5.

## *The Australian Shipping Industry*

... concern at the increasing number of delays to ships that indicated a breakdown in industrial relationships between the Line and the unions and a considerable degree of disharmony on ships between the various union groups and disputation between the unions themselves.<sup>244</sup>

The statistics of ANL's labour relations pre-Crawford are dismaying. For example, the 247 individual delays totalling 793 ship days that ANL incurred in 1979-80 cost it an estimated \$11.5 millions, and it was of no comfort that in 76.8% of these cases the ANL had no direct employer/employee relationship with the strikers.<sup>245</sup> Nevertheless, the meeting produced little discernible abatement of the labour disturbances that, again, in 1981-82 cost ANL \$15.5 millions as disputes delayed its ships for a total of 778 days, of which 501(68%) were attributable to ships' crews.<sup>246</sup> Delays of 242 days the following year cost ANL's ships another \$3.5 millions and included a very public inter-union dispute involving ANL's newest vessel.<sup>247</sup> Embarrassingly, ANL's ships in the overseas trades for which the unions had campaigned so vigorously were treated no differently to those operating coastally. The consequences for ANL were pointed out by its Marine Manager during the meeting of 1979:

... with emphasis, that the Line was not well thought of by its trading partners and its competitors all of whom were foreign flag operators not generally subjected to crew disputes and who would lose no opportunity to turn those disputes to their own commercial advantage.<sup>248</sup>

In response, the Federal Secretary of the SUA:

... conceded that the Line was not in a very healthy state financially and that the cooperation unions had given to overseas shipping had largely disappeared.<sup>249</sup>

The ANL's labour problems also affected the operations of its waterfront terminals to perhaps an even greater extent than its vessels, and seven of its Annual

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<sup>244</sup> Internal ANL Memorandum by J. Stewart, Industrial Relations Manager, 30/3/79. Z129/23 NGB.

<sup>245</sup> The Australian National Line, *Annual Report 1980*, p.3.

<sup>246</sup> The Australian National Line, *Annual Report 1982*, p.4. The earlier consolidation of all marine awards into one had facilitated the previous, seemingly interminable, negotiations necessary for the renewal of seven awards. However, a significant part of ANL's losses in 1981 were attributable to a 21-day strike by marine engineers which delayed 60 vessels. The dispute arose from claims by the AIMPE for increased pay and study leave, paternity and compassionate leave, during negotiations for the Award's renewal. Rosemary Broomham, *Steady Revolutions. The Institute of Australian Marine and Power engineers, 1881-1990*, NSW University Press, Sydney, 1991, p. 205.

<sup>247</sup> The Australian National Line, *Annual Report 1983*, p.5. The bauxite carrier *River Boyne* was delayed for 55 days at anchor off Gladstone while the MSG and SUA disputed whose member would drive the ship's windlass. *Ibid.*

<sup>248</sup> Internal memorandum of ANL's industrial relations manager, 30/3/79. p.2. Z129/23 NGB.

<sup>249</sup> *Ibid.* p.3.

Reports between 1977 and 1985 record delays to ships from shore-based industrial disputes involving either ANL's own terminal labour or that of other stevedores.<sup>250</sup>

A condition of the Government's capital contribution of 1983 was its insistence that ANL management commence "... an intensive programme of remedial action."<sup>251</sup> Among other steps this included "a quite draconian" reduction in administrative shore staff that in 1978 peaked at 20.9% of total staff employed, or 17.3 persons for each ship in the ANL's fleet.<sup>252</sup> The remedial action also included withdrawal from unprofitable services and rationalisation of others. In 1984 ANL withdrew from PAD Shipping Australia Pty. Limited, its joint venture trade to the North American west coast of which it held 25%.<sup>253</sup> In all, the ANL also sold six of its vessels during 1985 because of restricted employment opportunities.<sup>254</sup> The sales included one of the large 'P' class bulk carriers controversially introduced to the Japanese iron ore trades.<sup>255</sup> The ANL's efforts to reduce costs continued through the next two years as it abandoned unprofitable trades, rationalised others and sold the vessels thereby rendered surplus.<sup>256</sup>

Competition from substitutes led to ANL's withdrawal from its loss-making Queensland general cargo and Darwin services but the principal remaining Bass Strait general cargo services were immune to such competition. The principal competitive force to affect ANL's profitability during this period, however, was the Government's policies towards its own Line. In the mid-1970's two events important to the ANL occurred. In 1975 a Liberal/National Government replaced the Labor administration and the following year the twenty-year life of the *Australian Coastal Shipping Agreement* expired. The Agreement between the Government, the private shipowners

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<sup>250</sup> One particularly bad example of shore labour stoppages over which ANL had no control was that of mining company employees in the Pilbara in 1979 that delayed ANL vessels a total of 347 days. The Australian National Line, *Annual Report 1979*, p.17. Another was that of WWF labour in ANL's own terminals that occurred in 1984-1985. This led its Chairman to write: "Of all the links in that long chain [the door-to-door movement of cargo] improvement in the operation of our terminals appears to present the most immediate challenge." The Australian National Line, *Annual Report 1985*, p. 5.

<sup>251</sup> The Australian National Line, *Annual Report 1983*, p. 4.

<sup>252</sup> Stubbs, *Australia and the Maritime Industries*, op. cit, p. 27.

<sup>253</sup> Ibid. p.5.

<sup>254</sup> These included two of ANL's recent *Lake* class and, pursuant to BHP's policy of railing its products or using its own ships, the two specialised vessels built to carry the steel strip made by its subsidiary, Lysaght. Ibid. p.10.

<sup>255</sup> At negotiations in 1982, ANL had already been forced to concede a 5% decrease in the freight rates payable for its large bulk carriers because of a down turn in the Japanese steel industry. *The AFR*, 26/11/82. This was followed in 1985 by the sale of the *Australian Pioneer*. The Australian National Line, *Annual Report 1985*, p.4.

<sup>256</sup> The Australian National Line, *Annual Reports 1983, 1984, 1985*, Chairman's Reviews, pp. 4-5.

and stevedores had restricted the ANL to 325,000 gross tons and provided compensation for the Line if directed into unprofitable trades in the public interest. The new Government signalled a policy towards its Line different to its predecessors. Instead of renewing the Agreement, it amended ANL's regulatory vehicle, the *Australian Shipping Commission Act*, to "provide a situation of equal competition and equal opportunity between ANL and private shipping companies."<sup>257</sup> In future, Ministers were obliged to enquire what assistance other persons and alternative means of transport would require in order to compete with ANL for any service into which he proposed to direct it.<sup>258</sup> The Minister of Transport, P.J. Nixon, expressed the Government's legislative intent in an address to the Australian Chamber of Shipping:

Let me say right now that there is no intention of impeding sound growth by the ANL but such growth must be on a sound commercial competitive basis.<sup>259</sup>

This new Government policy towards ANL was soon discernible. As the press noted:

Australia has retreated a long way from the development of its international shipping since the days when the Labor Government's Charlie Jones was keenly promoting all sorts of shipping schemes. The current Government has gone to the opposite extreme and has either ignored the development of Australian shipping or taken a negative view of any proposal.<sup>260</sup>

The Labor Government that took office in 1983 gave ANL a capital injection to resolve its bankruptcy, but maintained its predecessor's policy towards the Line.

It has been made clear to each [ANL management, employees and unions] that the Government expects continuing improvements in ANL's performance to generate and provide the cash required for investment in new ships and equipment and to pay dividends.<sup>261</sup>

The effect on the ANL of the 1976 review of the *Coastal Shipping Agreement* was, therefore, theoretically a change in its existing status of an instrument of Government policy to its original designation as an enterprise expected to operate in accordance with commercial principles. The commitment of the two major political parties that the ANL would be required to operate commercially gave the first

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<sup>257</sup> The Australian National Line, *Annual Report 1978*, p.15.

<sup>258</sup> Other amendments to the ANL's Act required the Minister to set an annual dividend target for the ANL, which was hereafter to be subject to all state, territory and Commonwealth taxes and to pay interest and accept other conditions of borrowing the equivalent of those applicable to private shipping. *Ibid.* p.15.

<sup>259</sup> *The Australian*, 10/5/78.

<sup>260</sup> *The Australian*, 20/4/78.

<sup>261</sup> The Interstate Commission, Justice M.G. Everett, President, Review of the Financial Performance of the Australian National Line, March 1987, Australia, Parliament, 1987, Appendix 1, Second Reading Speech on *The Australian Shipping Commission (Additional Capital) Bill 1985*, by the Hon Peter Morris, MHR, Minister for Transport. p.53.

indication that Governments of any persuasion might not be committed to the Line's survival unless it met this requirement.

There is no doubt from the ANL's Annual Reports that its management held the depressed international trading conditions from the mid-1970's onwards accountable for its poor results thereafter. In the trades to which the ANL was committed these effects were inescapable, but it is arguable that the Line would have survived them better had different Government policies been applied to their selection and financing.

In entering the overseas trades the ANL spread its resources thinly over six major routes and committed one or two vessels to each, principally funded by debt. The closed Conferences the Line entered had strict rules of behaviour for its members and in the consortia it joined it was partnered with companies more experienced and with greater resources than its own. The ANL was, therefore, highly vulnerable to the fall in cargo and downward pressure on freight rates due to the heightened competition of new entrants in the global economic and shipping recession following the 1973 oil crisis that by 1983 had become the worst recession in 50 years. The Line's misfortunes in its foreign liner trades were paralleled in overseas bulk trades where recession and competition reduced freight rates for its Japanese trade ore carriers to levels at which they traded unprofitably. For an under-capitalised company with high interest liabilities like the Line's, it was important to maintain profitability or at least suffer only temporary losses yet the international environment in which it was directed to trade was susceptible to booms and recessions. This raises the question whether the ANL was destined by its financial vulnerability to fail overseas once the favourable trading conditions in which it was launched were succeeded by the more usual volatility of international trade.

Porter argues that a firm needs an appropriate competitive strategy to create a defensible position in an industry to cope with his five forces and to achieve superior returns.<sup>262</sup> He names cost leadership, product differentiation and focus as the three generic strategies at least one of which a firm should adopt to outperform its competitors. Table 7.4 compares the operating costs of an Australian bulk carrier with those of OECD and Open Registry operators.

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<sup>262</sup> Michael E. Porter, *Competitive Strategy*, op. cit. p. 35.

Table 7.4

**Comparison of Variable Operating Costs for a Panamax Bulk Carrier  
June, 1983 in \$A'000's Per Annum**

	<b>Aust.Flag.</b>	<b>OECD Flag</b>	<b>Open Registry Flag</b>
Manning	1,980	846	758
Victualling	91	65	50
Stores	200	200	200
Insurance	285	230	225
Repairs/Mtce	650	450	450
Admin & Misc. 300		200	140
Accom. Upgrade	150	-	-
	<u>3,656</u>	<u>1,991</u>	<u>1,823</u>

Source: McLean, *Australian Coastal Shipping: the High Cost of Protection*

The Table shows Australian shipping's high operating costs would clearly have precluded ANL from cost leadership in international trades or even domestically where rail and road were able to undercut shipping. Again the infrequency of sailings of the one or two ships the ANL committed to each overseas trade also made it difficult, but not impossible, to differentiate its liner services from the majority of those provided by other members of its conferences.<sup>263</sup> Porter defines his third generic option as focusing on a particular buyer group, segment or geographic market. Trace argues the Line could have followed either differentiation or focus strategies.<sup>264</sup> He suggests the ANL could have used its specialised knowledge of Australian distribution to ally with an Asian line in providing a distinctive service with a competitive edge.<sup>265</sup> Examples of focus strategies presented by Trace that the ANL might have adopted are the operation of a feeder container service between Australia and an Asian hub port as a niche, or a container service tailored to specific Australian

<sup>263</sup> Porter points out a heavy direct government role in a service industry is usually a reliable indication that a nation will have a modest international presence citing Italy, Germany and Sweden in examples, a comment borne out in the case of the ANL. Michael E. Porter, *The Competitive Advantage of Nations*, The Free Press, New York, 1990, p.62, p.266.

<sup>264</sup> Keith Trace, *Privatising the Australian National Line*, op. cit. p.437.

<sup>265</sup> Ibid, loc. cit

needs.<sup>266</sup> There is no obvious reason why the ANL could not have adopted a combination of both differentiation and focus strategies, as Porter suggests.<sup>267</sup>

There is evidence that by 1983 the Line's management realised the mistake of an unfocused, undifferentiated minor player becoming immersed in the liner trades Conferences into which it had been propelled by Government policy.

Prior to 1970 or so the line was obviously doing something right and quite obviously from that time onwards we were also doing something wrong. ... We had over-manned ships, over-manned terminals and over-manned offices. We entered prestigious areas of business rather than profitable areas of business.<sup>268</sup>

However, the Line lacked the capital to enter more profitable trades had the opportunity occurred; and it is doubtful the Line's management could convince a Government that had already contributed \$160.5 millions that it should provide more. Locked into its trades, the ANL's management could only try to trade profitably within them through its five-year plan of economies and rationalisation, wait for the crew reductions and financial assistance for new vessels promised by the Crawford Report and hope for the recession to end.

Other liner operators than the ANL had of course felt the effects of international recession and as time went on tried to minimise the accompanying intensification of competition by economies of scale, routing and operating costs that impacted on the Australian shipping industry. Large players combined as mega-carriers, pendulum and round-the-world services developed and an increasing amount of general cargo in the relatively 'thin' Australian trades with Europe and the United States was handled through Asian hub ports to save the diversion time of increasingly large container ships. As a minor player, the ANL felt the effects of these trends as they gathered momentum in the final years of its existence.

Between 1970 and 1976, the Western Australian government ordered eleven reports into the its State Shipping Services (WASSS) whose annual losses were still continuing to increase. A first recommendation to replace seven obsolescent conventional ships with four second-hand imported vessels converted for unit loads proved ineffective in making WASSS profitable.<sup>269</sup> The replacement of two of these

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<sup>266</sup> Ibid. loc. cit.

<sup>267</sup> Michael E. Porter, *Competitive Strategy*, op. cit. p. 34.

<sup>268</sup> Address by Mr. Bill Bolitho on assuming Chairmanship of ANL, reported in *Australian Transport*, December 1983, pp. 2-3.

<sup>269</sup> Western Australia Parliament 1977, Questions and Answers. State Records, Office of Western

ageing unit load vessels with two modern ships in 1978, and the other two in 1982 with one larger, more efficient ship was also unsuccessful.<sup>270</sup> With this Stateships resumed its round-Australia service to the east from Darwin trying to re-capture from road some of Western Australia's imports from the eastern states, but with scant success.<sup>271</sup> Meanwhile construction of the 'black top' (sealed) road pushed northwards, improving the access of road transport to more areas.<sup>272</sup> The completion of the Meekatharra to Mount Newman section in 1978 facilitated the transit of goods by road to that mining community, and by 1981 cargo could be trucked as far north as Broome.<sup>273</sup> As the road extended, Stateships lost more trade to trucks, and by 1984 road had a virtual monopoly of general cargo to the Pilbara region.<sup>274</sup>

As early as 1973, when a substantial private sector still existed and ANL was still expanding, the Government established a Maritime Industry Commission of Inquiry.<sup>275</sup> On its recommendation the Government provided some measure of financial assistance for shipping although both it and its successor ignored most of the Commissioner's other recommendations when he reported in 1976.<sup>276</sup> Then, " the

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Australia. Ref. No. 5253219, File 2. One recommendation to replace the conventional fleet with the Lighter Aboard Ship System (LASH), which used large vessels to drop off lighters for discharging and loading to be picked up on the ship's return journey, was abandoned after the Government declined to provide \$18.345 millions to fund their construction. Western Australia, Parliament 1977, File 666, State Records Office of Western Australia, File 666, Vol 7.

<sup>270</sup> Ref No: 5253, File 630, Volume 8, SRO, WA.

<sup>271</sup> WASSS changed its name to Stateships in 1979. Whereas total tonnage carried from the eastern states had increased by only 16% between 1980/81 and 1986/87, that carried by road grew by 75%. Western Australia, Department of Transport, *Coastal Shipping Issues Affecting Western Australia; Report prepared for the Industrial Assistance Commission's Inquiry into Coastal Shipping in Australia* Report 325, 1987, p.10, SRO, WA 1987.

<sup>272</sup> The Western Australian State Shipping Service (WASSS) changed its name to Stateships in 1979. State roads construction was expedited by the Federal *National Roads Act 1974*, *Roads Grants Act 1974*, and *Transport Planning and Research Act 1974*, which provided Commonwealth finance for the construction and maintenance of National Highways. Leigh Edmonds, *The Vital Link: a History of Main Roads Western Australia 1926-1996*, University of Western Australia Press, Perth, 1997, p. 239.

<sup>273</sup> Ibid. p. 297 and p. 301.

<sup>274</sup> Western Australia, Department of Transport, *Report of the Transport Strategy Committee into the Benefits from Subsidising Stateships North West Service*, Report 49, State Records Office, 1986, p. iii.

<sup>275</sup> The Commissioner, M.M. Summers, a former Secretary of the Department of Shipping and Transport, recommended financial assistance for overseas and coastal shipping, and the restructuring of ANL. Australia, Parliament 1977, *Future of the Australian Maritime Industry*, Parliamentary Paper 314/1976, Canberra, 1977, p.17.

<sup>276</sup> The Government did extend to coastal shipping only the investment allowance available for industry generally. For shipping, this was an initial amount of 40% of a ship's capital cost added to normal taxation depreciation for ships ordered between January 1976 and June 1978 and in service by June 1979, reducing to 20% for vessels ordered between June 1978 and 1983, and in service by June 1984. J. King, *Australian Shipping*, op. cit, p.114.

early 1980's it was widely recognised that the Australian shipping industry was in a parlous state and a number of inquiries have reflected the concern."<sup>277</sup>

Except for the cost of delays to ships inflicted by unions resisting technical advances, the private sector was substantially free of the worst effects of the six forces experienced by ANL. The integrated companies were protected by the nature of their in-house operations. By the 1980's the business policies adopted by the two principal independent companies, Smith and Bulkships, had insulated them from the worst effects of the six forces. Smith's dry bulk carriers and tankers had long-term charters; Bulkships' interests in New Zealand's trades and packaging of its services into long-term charters for its clients provided similar protection. After the loss of ASP's container trades and Smith's earlier rejection by the oil industries, both groups avoided most of the competitive forces' effects on profitability. The bargaining strengths of the mining and manufacturing sectors, their new clients, were the exception; the minimal risks of these contracts, however, made them sufficiently attractive to both groups. Arguably, the concern expressed in 1981 by the Government at Australian shipping's condition thus related principally to the ANL. The Government's motivation in establishing the Crawford Committee, with its mission of industry revitalisation, was, therefore, perhaps not entirely altruistic.

### **The Crawford Committee: Objectives, Work, Effects**

This initiative was a three-man Committee, under Sir John Crawford of the ANU, the work of which soon became eponymous with its chairman. Crawford's role was defined as:

... to assist in the evolution of practical proposals for the benefit of the shipping industry as a whole having regard to problems identified by the shipowner and union groups.<sup>278</sup>

According to the Minister, R. J. Hunt:

The aim [of the Crawford Committee] is to produce an efficient Australian shipping industry which can compete commercially with land-based domestic transport and international shipowners ... by fostering agreement between shipowners and unions.<sup>279</sup>

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<sup>277</sup> Ibid. p.116.

<sup>278</sup> Ibid. The "Crawford Committee" comprised two committees headed by Messrs N. Jenner (ANL's chairman) and L. Schurr (ACTU), respectively appointed by shipowners and unions, whose purpose as stated by the Minister was "to find mutually satisfactory solutions to the problems that have almost strangled the shipping industry." Ibid. p.41.

<sup>279</sup> Ibid. loc. cit

Crawford thus defines this market in which Australian shipping was attempting to compete.

The market in which Australian ships are required to be commercially viable is dominated by vessels registered in "open registry" countries such as Panama or Liberia where virtually no tax is paid, or in "maritime countries" such as Japan, U.K. and Norway whose Governments provide a considerable array of tax incentives, or in some cases cash subsidies to their shipowners. ... The effect of these concessions and the availability of open registry shipping is to establish a market price for shipping that cannot be matched by a ship operating under existing tax legislation.

Thus, he says,

The word "competitive," I have argued, implies a market free from distortions brought about by government intervention. I have shown that such a market does not exist and that an Australian shipping industry is unlikely to eventuate ... without Australian Government support against those interventions by other Governments in support of their national fleets.<sup>280</sup>

An assessment of whether Crawford succeeded in this aim must compare the industry's circumstances before and after his work, commencing with the competition it aspired to meet. The reasons Australian shipping could not compete, Crawford said.

... lie very largely in two areas; the nature of financial assistance given to foreign shipowners for building and /or operating ships, and the lower manning levels (crew numbers per ship) accepted by the national flag lines of other countries as compared with Australian conditions. The so-called "open registry" ships are in yet another category marked by a virtual total absence of fiscal controls and generally by lower wages and conditions for crews.<sup>281</sup>

A ship's construction or capital costs are usually the largest component of total costs but subject to a number of factors that render difficult a comparison of their significance to vessels of different owners and flags. For instance, first, cost on whether a ship was built in a boom or slump, then interest rates on borrowing strengths and economic conditions or the imputed rates a company used for internal purposes. This makes it difficult to compare the significance of capital costs to Australian and foreign owners. However, Crawford's remarks established qualitatively the competitive disadvantage of Australian shipping in a market where maritime countries whose shipowners were supported by tax incentives or cash subsidies and open registry vessels whose owners paid no tax had captured over 70% of Australia's cargoes.<sup>282</sup> While a reliable quantitative comparison of the significance of Australian shipowners' capital costs with those of their competitors cannot be

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<sup>280</sup> Ibid. p.29.

<sup>281</sup> Ibid. p.5

<sup>282</sup> Ibid, p.6.

established, a strong indication of their effect is available.<sup>283</sup> The financial assistance offered by the Government for new ship construction on Crawford's recommendations included accelerating taxation depreciation from sixteen years to five, extension of the general industry investment allowance to all ships and abolition of the 2% duty on imported ships. Two effects of these concessions establish the pre-Crawford significance of Australian capital costs. In the two years succeeding June 1985 10% of the Australian trading fleet, including 25% of its tankers, was renewed; but 14 months after introducing these concessions the Government withdrew the allowance from industry generally and Australian fleet replacement ceased until financial support was restored.

Surprisingly, Crawford did not extend his comments to identify shipping's domestic disadvantages that followed from the financial support of federal and state governments for land transport.<sup>284</sup> However, neither did he distinguish between the vessels in domestic and overseas trades when framing his recommendations for financial help for shipping, presumably believing both would benefit from its introduction.<sup>285</sup>

Reducing the costs of over-crewing would clearly unlock those benefits of technical advance so far withheld. Crawford's approach to this objective was the establishment of two committees, one of shipowners and one of unions, which were given no terms of reference, but were "free to choose the topics to be studied and to set their own targets."<sup>286</sup> The result of their discussions was the agreed position that crew numbers should not immediately be reduced to the Scandinavian level of 18 but "...for large bulk carriers an initial reduction to below 30 should be made for new vessels."<sup>287</sup> Only ships whose manning had been determined at this level should,

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<sup>283</sup> Ibid, Table 1,p.15. This gives an idea of the scope of assistance foreign governments provide to their domestic shipping.

<sup>284</sup> Between 1965 and 1976 Government capital grants to states for road building were \$2,904.4 millions and between 1977 and 1985 \$6,706.7 millions. Government grants for sea transport over the period were \$7.37 millions, of which \$0.59 millions were subsequently recovered. Australian Bureau of Statistics *Year Book of Australia*, Vols. 56 (1970) to 71 (1988), Transport and Communications.

<sup>285</sup> These comprised allowable depreciation for tax purposes over five years of the cost of new vessels commencing in the year prior to commissioning, abolition of the 2% import duty on Australian ships, the extension of the investment allowance to all vessels and eligibility for the allowance of existing ships younger than five years that complied with the Report's manning recommendations. J.G. Crawford, *Revitalisation of Australian Shipping*, op. cit. p. 37.

<sup>286</sup> Ibid. p.41.

<sup>287</sup> Crawford recommended the reduction should be "...accompanied by the introduction of training programmes for officers and ratings aimed at equipping them with the further skills needed prior to manning the ships with crews of comparable size to our competitors." Ibid. p. 23.

Crawford argued, be eligible for any financial assistance the Government offered that could also be extended to existing ships less than five years old that reduced their manning. Crawford also recommended the Government should try to improve Australian shipping's access to cargo by encouraging exporters to sell on c.i.f. terms, and to discuss the matter with trading partners on a Government-to-government basis if an increase could not be obtained commercially.<sup>288</sup>

The Government accepted Crawford's recommendations but lost office in 1983, leaving its successor to introduce legislation implementing Crawford's financial and manpower recommendations in 1984. Reaction to Crawford's work varied according to whether the commentator provided or used shipping. Thus a senior shipowner commented: "Now that the Crawford report has been accepted by the Government, instead of the enormous pessimism there will be optimism."<sup>289</sup> But the Australian Mining Industry Council (AMIC) was:

... concerned that revitalisation of Australian shipping will be at its expense. Most mineral exports are low value commodities for which transport costs, particularly in the case of distant markets, represent a high proportion of landed costs.<sup>290</sup>

Trace also criticised the impact of Crawford's proposals by arguing they were and contrary to Australia's interests generally.

To put it bluntly, if other countries choose to subsidise their merchant marines, and if as a result ocean freight rates are, potentially or actually, lower than they might be in an unsubsidised world, then let's take advantage of the generosity of others and bargain for a share of the benefits.<sup>291</sup>

After the ANL's sale, succeeding Governments no longer had an interest in shipping and increasingly issued both Single and Continuing Voyage Permits under the *Navigation Act* to admit foreign vessels to coastal voyages.

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<sup>288</sup> Crawford recommended that exports should be sold c.i.f (cost insurance and freight) instead of the f.o.b. (free on board) whereby the purchaser makes his own shipping arrangements. Considerable persuasion would have been necessary to induce purchasers of exports to change the basis on which Australian exports are generally sold.

<sup>289</sup> The Chief General Manager of Howard Smith, commenting in *The Australian*, 5/8/82.

<sup>290</sup> *The AFR*, 8/7/82. McLean was even more critical. "In summary a further infusion of taxpayers money through the Crawford and ANL revitalisation programmes is at best a short term palliative for an industry which has had ... extremely harmful effects on other industries ... producers, traders, consumers, taxpayers and unemployed." Ross McLean, *Australian Coastal Shipping: the High Cost of Protection*, op. cit, p.41.

<sup>291</sup> Keith Trace, 'Revitalisation of Australian Shipping': a Critique of the Crawford Report, *The Great Circle*, IV no. 2, (1982), p. 130. Trace also argues against the putative benefits of shipping subsidies as benefiting the Balance of Payments (overstated), employment creation (not cost-effective), training of marine experts (no shortage), creation of trade window (perhaps, for integrated owners) and defence (for specific vessels only).

Delivery of a ship can lag behind the decision to build it by several years. It was therefore 1985 before the first new ship with manning reduced to qualify for the Government's benefits appeared and an assessment of the Committee's success or otherwise could be made based on results. In the two years thereafter ten per cent of the Australian trading fleet was replaced with new constructions that were more fuel-efficient and required less maintenance. The effect was most evident in the tanker fleet, 25% of which was renewed during this period.<sup>292</sup> The major oil companies, therefore, benefited more than Australian shipowners from the reduced manning and Government financial assistance to shipowners that followed the Crawford Committee's work, although the cost of petroleum was perhaps reduced to Australians in general by the lower costs of shipping oil cargoes.<sup>293</sup> Estimates by commentators and critics of the savings in crew costs that followed Crawford are conspicuous by their absence. However, it appears that by 1990 they could have peaked at about \$11 millions annually, in values of the late 1980's, spread over twenty new and existing vessels that, by 1987, applied for manning reductions, an annual saving of some \$500,000 per vessel.<sup>294</sup> The ANL built no new ships to obtain the Crawford benefits, but four existing vessels qualified for crew reductions having been constructed within the five years preceding Crawford. If these obtained the potential annual saving in operating costs of \$2.0 millions this no doubt contributed to the Line's profitability from 1985 on after its disastrous loss of the preceding year.

The savings from crew reductions brought the costs of Australian shipping closer to those of its international and domestic competitors but not enough to increase participation in these trades by the ANL or private companies. They therefore did little to improve the competitiveness of Australian shipping with flags of

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<sup>292</sup> J. King, *Australian Shipping*, op. cit, p. 118. The new vessels comprised five tankers, a South Australian government vessel and six bulk carriers (three for BHP, two for independent owners and one foreign owned). The benefits of Government assistance at this time were not therefore widely diffused among Australian companies. Department of Workplace Relations and Small Business, Canberra, 1998, *Australian Shipping 1997*, Table 6, p.17.

<sup>293</sup> The large tankers introduced by the oil companies in the early 1980s in particular benefited from the reduction of crew numbers achieved by Crawford. There is no apparent evidence of any savings being passed to consumers.

<sup>294</sup> This estimate is derived as follows. Twelve of the thirteen Crawford ships built and another 8 ships built in the 5 years preceding 1984 qualified and had applied for reduced manning by 1987. Department of Transport and Communications, *Coastal Shipping An Industry in Transition*, DOTC, Canberra, November 1987, p.5. Completion of reduction of these vessels crews' at an average of 5.7 berths per vessel was achieved by January 1990. The Shipping Industry Reform Authority, *Shipping Reform, Past, Present and Future*, Canberra, 1991, p. 7. The average annual cost of filling the berth most frequently redundant, an Able Seaman's, approximated \$95,000 annually in 1988 according to J. King, *Australian Shipping*, op. cit, Table 3.12, p. 93. Multiplying these figures yields \$10.8 million.

convenience, with ships of countries receiving operational subsidies from their governments or with shipping's domestic substitutes.

There were also no signs that the Government seriously pursued Crawford's recommendation to seek agreement from other governments to assist Australia's shipping to a greater share of its export trades. Obviously this would have been difficult to achieve. Mining companies and other primary industries would certainly have resisted such efforts made by invocation of the Nara Treaty or other avenues on the grounds that the use of Australian ships would increase their costs and erode their markets. Governments of trading partners would probably have adopted a similar position.<sup>295</sup> More positively, an improvement from the mid-1950's in maritime labour relations evidenced by fewer strikes and the seagoing unions' agreement to reduce crews has been attributed to a closer inter-party relationship fostered by Crawford. However,

The withdrawal of the investment allowance after only 14 months of operation (as a matter of Government policy affecting all Australian industry) brought to an abrupt end some of the progress made under the Crawford package.<sup>296</sup>

This created a hiatus in fleet modernisation. Seven years passed before the ANL built a new vessel and private investment was suspended until the next Government reform initiatives.

An assessment of the Crawford revitalisation must, therefore, conclude that although it succeeded in its objective of reducing crews and obtaining financial aid for shipping, neither was sufficient to improve Australian shipping's competitiveness. On the other hand, the initiative did bring about an improvement in industrial relations and mitigation of ship delays due to labour disturbances. The overall objective of industry revitalisation was not achieved but "... the Crawford initiatives established a pattern for reform, namely shipowners and unions working together cooperatively to improve the efficiency of their industry."<sup>297</sup>

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<sup>295</sup> If the Government to government relations suggested by Crawford had been pursued the Government might, perhaps, have invoked Article X of the Nara Treaty of Friendship between Japan and Australia, which provides: "The Contracting Parties recognising that international shipping activities between the two countries play a significant role development of their economic trade and commercial relations ... shall promote mutual cooperation for the development of shipping between the two countries on a fair and mutually advantageous basis." Department of Transport, *Moving Ahead: Report of the Maritime Industry Development Committee*, AGPS, Canberra, 1986, p.38.

<sup>296</sup> King notes one exception to this generalisation. J. King, *Australian Shipping*, op. cit, p. 118.

<sup>297</sup> Ivan Deveson, Chairman, Shipping Reform Task Force *Report of the Shipping Reform Task Force to the Minister for Transport and Communications, the Hon. R? Willis, M.P.*, Melbourne, 1989.

When a Labor Government gained office in 1983 its Minister for Transport preferred to regard the work of the Crawford Committee as a successful first step in shipping's revitalisation. He therefore shrugged off what others saw as its shortcomings and in 1985 dispatched a mission overseas comprising representatives of shipping companies, unions and Government officials. Its terms of reference stated:

The Mission is to examine the needs of the Maritime Industry ... against developments ... in maritime nations with similar standards of living to Australia ... and to interpret their relevance to Australian circumstances.<sup>298</sup>

The mission visited a number of OECD countries, and its brief report in December recommended that:

...on-going discussions should continue so an appropriate forum should be set up as soon as possible, comprising Government, owners and unions to consider all aspects of this mission's report ...<sup>299</sup>

The Government accepted this recommendation and established a Maritime Industry Development Committee (MIDC), which proposed further measures to promote shipping's revitalisation when it reported in 1986.

## **Conclusion**

The years previous to 1965 with the establishment of the ANL and the collapse of the ASO, can be regarded as those when shipping sloughed off its old image and entered a new phase when the shape of its future role began to emerge. The years between 1965 and 1985 were those when the future shape of the industry began to emerge. The ANL was now Australian shipping's dominant force, but unprofitable, while the private sector although shrunken had better adapted to the competitive forces shaping its environment and was profitable. A review of the effects of the competitive forces shows their input.

In the private sector, competition from shipping's substitutes destroyed ASP's container service and ANL's rivalry hastened the demise of Holyman. In both cases the effects of competition were exacerbated by Government policies. In the former by financial support for rail and anti-competitive practices, in the latter by freezing ANL freight rates and applying an out-dated policy to restrict access of its Line's competitor to efficient tonnage. Australia's expanding mining and manufacturing companies became private shipping's new principal users. The bargaining strengths of

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<sup>298</sup> Department of Transport, *Moving Ahead*, op. cit, p.36.

<sup>299</sup> Department of Transport, *Report of the Australian Maritime Industry Mission to Study Developments in Manpower and Training of Seagoing Personnel*, Canberra, 1985, pp.2,3

these clients proved a new competitive force not only in holding down profits, but by acquiring the new vessels needed; by doing the latter with their own capital they relegated Australian companies to less remunerative management roles. The re-institution by ASP of ship management services filled manufacturing and mining's shipping needs and assisted shipping's survival. But it also provided the route to domination of the industry by these new users and facilitated the transition to its future role of carrier of their cargoes. Smith, TNT's Bulkships and its ASP subsidiary, the most important independent shipowners remaining, successfully blended fresh business policies, using new technology in profitable contracts that avoided most risks of labour disruption.

Because of the ANL's important place in Australian shipping its decline from industry predominance in profitability and status caused most concern for shipping's future in this period. The reason was the effect on the ANL's profitability of the competitive forces of labour restrictions, competition from substitutes, its users and Government's policies. There were substantial differences in the number, strengths and incidents between those experienced by the private sector and those that depressed the ANL's profitability. For instance, the effect on profitability of labour disputes with employees in ANL terminals and crews in its ships was likely to be substantial because they not only drove up the price of services but also interfered with the all-important regularity and reliability of liner trade sailings. However, the effects on profitability of competition by substitutes on ANL's coastal general cargo trades were limited to its Queensland general cargo and Darwin trades because of the immunity of its Bass Strait operations to land competition. The competitive force exerted by ANL's users also differed from that affecting the independent companies. Two recessions in the domestic steel industry caused BHP to terminate its long-standing practice of chartering the Line's vessels. The loss of BHP's business and the effects of other recessions on the ANL's coastal bulk trades were overshadowed by those of a major international shipping recession that commenced with the oil crisis of 1973. This increased competition for reduced cargoes by established and existing players and depressed the earnings of the ANL's high-cost vessels in the Japanese iron ore and container trades. The Line became chronically unprofitable to the extent of technical bankruptcy from which it was rescued by an injection of Government capital. The ANL could have better survived the effects of domestic and international

recession had the Government policies towards its Line been different. This required more thoughtful selection of the international trades into which it was directed, less risky financing of these operations and avoidance of unprofitable 'public interest' ventures like the phosphate trade. Freight rate increases to cover escalating costs should also have been driven by commercial practice, not political motive.

This period did provide some grounds for optimism regarding the future of Australian shipping. Shipment of large volumes of raw materials produced by the mining industries and distribution of their manufactured products, especially aluminium, created new opportunities. The introduction of Australian flag tankers forced the major oil companies to add their own vessels to the national fleet in both domestic and international trades. These developments helped to keep Australian shipping alive, but the financing of new tonnage by the manufacturing and mining industries did little to underpin the industry's strength. In response to the needs of these new users, a ship management sector developed that provided employment for the resources of several companies and facilitated the industry's transformation into a carrier of mining and manufacturing cargoes. The 250% increase in shipping's bulk cargo capacity shown in Table 7.5 confirms this change in its role. Finally, the Government's revitalisation initiative by establishing the Crawford Committee and its success in achieving its limited objectives brought optimism to shipping. By 1985 optimism was submerged in the combined effects on the industry, and especially the ANL, of the six competitive forces that led to an overall industry decline between 1965 and 1985. These effects are encapsulated in the changes to the composition of the Australian fleet shown in Table 7.5.

**Table 7.5**  
**Australian Fleet: Changes in Composition, 1964-1985**

Vsl. Type	1964Vsls	Ddwt. Tns. ( % )	1985Vsls	Ddwt. Tns. ( % )
<b>Dry Bulk</b>	68	499,652 (46)	38	2,088,797 (55)
<b>Liquid Bulk</b>	14	261,025 (24)	20	1,138,409 (30)
<b>Other</b>	66	326,582 (30)	42	590,489 (15)
<b>Total</b>	148	1,087,259 (100)	100	3,817,695 (100)

Source: *Australian Shipping and Shipbuilding*, 1964 and 1987

## *The Australian Shipping Industry*

The speed of post-war technical advance has militated against interstate sea transport, raising the question as to whether there is still a place for Australian shipping in the national transport system. Clearly shipping's passenger trade could not survive on long distances once rapid and affordable air transport became available, although the route to Tasmania that relies on tourists' need to be accompanied by their car is an exception. Manufacturers aim to minimise their stockpiles, but the coastal bulk trades are generally not time-sensitive and it is unlikely that rail transport could match shipping's costs and efficiency in trades that suit its characteristics. In its brief life, ASP's successful general cargo service container service demonstrated shipping could compete in time and cost on some long-distance routes with land transport, some of whose social costs exceed those of shipping's. For example, road's pollution and accidents and rail's shunting damage and pilfering make shipping an attractive alternative under some circumstances. But as the demise of ASP's efficient container service showed, unless the competitive interface between land transport and shipping was on equal terms, it could not survive.

## **CHAPTER EIGHT**

### **1986-2002: Revitalisation, Recession and Rescission**

The effects on industry profitability of the forces comprising shipping's explanatory framework changed after the 1965-1985 period. Some became inactive, some strengthened and others weakened but the capacity of all to affect industry profitability altered. With ANL losing money, its fleet shrinking and struggling in a severe international recession the Line's rivalry was little threat to the few remaining private companies. By 1985 road and rail had captured virtually all coastal general cargo except for the incontestable Bass Strait trades so the competitive force of these substitutes was no longer significant. Technical advance continued but its social and commercial impact had peaked after containerisation. The collapse of the domestic shipbuilding industry liberalised the supply of foreign built ships. With ready acceptance by unions of technology after Crawford's reforms these changes in the supply of ships and labour significantly improved the industry's freedom of action. However the few remaining firms employing the now decasualised waterfront labour in their terminals still incurred losses from labour disruption on the wharves. The main impact on the profitability and structure of the remaining Australian shipping companies came from two other forces of the explanatory model. These were first the expansion of industry control by the mining and manufacturing sectors that were now the principal users of Australian shipping and second. Government policies, especially the sale of the ANL after further losses, a decision with far-reaching effects on the industry's future.

However this period began with several Government initiatives at industry revitalisation that continued the attempts of Crawford with only similar marginal successes. Analysis of the effects on the industry and its profitability of these initiatives is examined in Part I. Part II analyses the reactions of private and Government shipping to a hostile trading environment that further depressed ANL's profitability, led to its sale and reduced Australian shipping to the role of adjunct to the mining and manufacturing sectors

### **I**

The Crawford Committee was charged by the Government with making Australian shipping competitive with its domestic and international competitors. The

Committee's work had obtained Government financial assistance for new and modern ships in return for the agreement of the marine unions to reduce their manning numbers. These were advantages already held by Australian shipping's international competitors and therefore the first steps necessary to meet competition on equal terms. By 1986 the Government realised these were not enough to enable the industry to meet the conditions of an unabated world shipping recession and a flat domestic market, and so decided further reform was necessary.

### **The Revitalisation Initiatives**

Crawford had focused on identifying the causes of Australian shipping's inability to capture more international cargoes:

The reasons lie very largely in two areas: the nature of financial assistance given to foreign owners for building and/or operating ships, and the lower manning levels (crew numbers per ship) accepted by national flag lines of other countries as compared with Australian conditions.<sup>1</sup>

His work made an essential start on the revival of shipping. To bring the industry to a competitive and efficient condition, much more was needed than the limited manning reductions and transitory financial assistance that followed Crawford. Nevertheless from 1986 the Government sponsored several more reform initiatives that doggedly pursued revitalisation of shipping through policies intended to improve the efficiency of its manpower and that of its stevedoring ancillary. These initiatives occupied much of the time of union, shipping and Government executives for the next seven years in meetings and travel, which again attained their limited objectives, but again fell short of re-energising shipping. Nevertheless, the prosaic work of these committees contributed to improvements in attitudes and structural changes in the industry during this period. An account of their activities therefore forms an important element in analysing the development of shipping post-1986.

In 1985 the Government had sponsored an overseas study mission, comprising its own, shipowners' and unions' representatives to examine conditions applying in the shipping industries of some other OECD nations. When the mission returned, the Government accepted its recommendation for a forum of the same parties to facilitate

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<sup>1</sup> Crawford considered open registry ships that are "marked by a virtual total absence of fiscal control and generally lower wages and conditions for crew" to be in a different category from those subsidised by their governments. J.G. Crawford, *Revitalisation of Australian Shipping*, op. cit. p.5.

on-going discussions of the industry's problems, and established the Maritime Industry Development Committee (MIDC).<sup>2</sup>

According to the MIDC's Terms of Reference, its

... principal objective should be ... new manpower policies appropriate to modern ship technology ... this work will embrace a program of analysis dealing with costs, modern ship technology, and the employment of better educated and trained crews.<sup>3</sup>

The MIDC met frequently during 1986, and in October published its report. Its core recommendation was the further reduction of crews by upgrading ratings' training to produce multi-skilled seamen, fewer of whom would therefore be required. Common training for all entrants to the industry, both rating and officer aspirants, and common on-board messing and recreational facilities were also proposed to break down the social barriers that had sometimes created frictions on board. The report emphasised the changes proposed by the MIDC could only occur in a viable industry, "...and this will require Government initiatives to provide a commercial environment in which the industry can prosper..."<sup>4</sup>

Like Crawford, the MIDC concluded that the best prospect for expanding Australian shipping was into the overseas trades, but that this was impossible unless the industry received similar financial assistance from the Government to that given by foreign governments to their shipping.<sup>5</sup> Thus MIDC suggested that the Government,

Allow depreciation on new vessels which are to sail under the Australian flag to be claimed over a period of three years commencing in the year prior to commissioning.<sup>6</sup>

The recommendations MIDC made for seamen's training were accepted by all unions, Government and shipowners. Ratings were given the alternatives of retraining as 'integrated ratings', as they were designated, or of retaining their existing employment

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<sup>2</sup> "The [MIDC's] mission is to examine the needs of the Maritime Industry in the 1990's against developments which have taken place, or are intended, in maritime nations with similar standards of living to Australia, to analyse the processes of implementation and to interpret their relevance to Australian circumstances." Department of Transport, *Moving Ahead: Report of the Maritime Industry Development Committee*, AGPS, Canberra, 1986. p.36.

<sup>3</sup> Ibid. p.24.

<sup>4</sup> Ibid. p.(iv).

<sup>5</sup> Appendix 2 of the MIDC's report *Moving Ahead* op. cit. lists the assistance to their shipping industries by foreign governments.

<sup>6</sup> Department of Transport, *Moving Ahead*, op. cit. p. 39. The MIDC derived its suggestion from an unpublished report of the Government's Transport Industry Advisory Council (TIAC) *A Proposal for the Development of Australian Flag Shipping*, June 1986, p.1. (Australian Shipowner's Association (ASA), Sydney).

until their replacement by fewer of these more highly skilled men, whereupon they would be compensated to leave the industry. A common training programme for both officer and rating entrants to the industry was also begun at Launceston's Australian Maritime College (AMC), hitherto reserved for officers education. The effect of this multi-skilled training was to reduce further the manning of twenty-six for dry cargo vessels, established after Crawford, to twenty-one, and that of tankers from twenty-nine to twenty-three. Instead of reducing the five-year period over which vessels could be depreciated for taxation purposes, resulting from Crawford's work, the Government instead introduced the *Ships (Capital Grants) Act 1987*.<sup>7</sup> This made available to owners of eligible new or second-hand vessels a taxable grant of 7% of their cost, provided they met the MIDC's proposed crewing level of 21 for bulk carriers.<sup>8</sup> These financial measures eliminated much of the disparity in capital costs between Australian shipping and its foreign counterparts, but a substantial difference between the operating costs of OECD vessels and Australian ships still existed due principally to the latter's larger crews and generous leave.<sup>9</sup> Meanwhile the changes introduced to the Australian shipping industry as a result of the work of the MIDC were generally seen as progressive. For example one, Government department concluded,

The willingness of the industry to come to grips with this situation [that growth and the future depended on changes], and the progress made, is impressive and should not be underestimated. ... Today there is a genuine spirit of cooperation and goodwill evident in the industry.<sup>10</sup>

The announcement of the Government's measures by shipping's Minister, Mr Peter Morris, also led the General Manager of BHP Transport, Mr Prescott, to welcome,

...the announcement by Mr Morris as a further necessary step towards the establishment of and maintenance of a truly competitive Australian shipping industry. He said the company shared Mr Morris's desires that the Government

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<sup>7</sup> The assistance that had followed Crawford's report had become ineffective. "Furthermore, erosion of the Crawford financial incentives through a change to the Australian taxation regime (whereby assets generally became depreciable over a period of 3 or 5 years) and the phasing out of the investment allowance meant that the Crawford concessions were no longer the catalyst for change they had initially been." Department of Transport and Communications, *Coastal Shipping: An Industry in Transition*, DOTC, Canberra, 1987, p.5-6.

<sup>8</sup> J.King, *Australian Shipping*, op. cit.,p.117.

<sup>9</sup> Department of Transport and Communications, *Report of the Shipping Reform Task Force to the Minister for Transport and Communications*. (Unpublished) p.vi.

<sup>10</sup> *Coastal Shipping: An Industry in Transition*, op. cit, p.8.

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package, along with the adoption of other MIDC recommendations would provide incentive to buy new ships. BHP would gladly use such opportunities, he said.<sup>11</sup>

There were, however, countervailing opinions as to whether the Australian shipping industry should receive any protection or assistance from the Government. The Federal Opposition's different views had already been expressed by its spokesman on Transport, the Liberal Senator Hamer, when he introduced a private member's bill in 1986. This proposed repeal of the cabotage provisions of the *Navigation Act's* Part VI that were Australian shipping's principal protection against the encroachment of cheaper foreign tonnage on coastal cargoes. His second reading speech stated,

This Navigation Amendment Bill will repeal this onerous and iniquitous requirement for a licence to operate in the interstate trade of Australia. For what this Part VI has achieved is a monopoly over the coasting trade, a tort for the seagoing unions in Australia and a high cost service for which all Australians have been paying for [*sic*] since 1921.<sup>12</sup>

In rebuttal, the Minister for Shipping and Transport, Mr. Morris, commented,

Our shipping industry needs to become more efficient, but to bring in foreign labour under foreign conditions is confrontationalist, and it is an absurd approach for an Australian political party.<sup>13</sup>

The Bill was defeated on Government numbers; however, the Opposition's views received backing from an authoritative, independent source, the Industries' Assistance Commission (IAC). The incumbent Ministers holding responsibility for shipping had initiated the work of both the Crawford and MIDC committees. However in 1987, soon after the MIDC had completed its work, the Minister for Trade and Industry, Senator Button, referred the shipping industry to the IAC for review, to report back in 1988. The IAC's terms of reference required an examination of the industry's efficiency and competitiveness, including costs and freight rates, and ways of improving its performance. The reason for the involvement of the IAC is unclear. Perhaps the Government required confirmation from an independent source as to the efficacy of its shipping policy, or perhaps there was a dichotomy of ministerial views regarding the value of the attempts at shipping reform. Whatever the reason, the IAC's draft report concluded that:

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<sup>11</sup> *The AFR*, 23/12/86.

<sup>12</sup> *The Navigation Amendment (Deregulation of Coasting Trade) Bill, 1986* received its first reading on 29/4/86. Senate Parliamentary Debates Vol: S.114, pp. 1957-1974, AGPS, Canberra, 1986.

<sup>13</sup> Press release by Minister for Transport, 13/5/86, Attached to Memorandum to ASOF Principals. 4/7/86, ASA Files, Sydney.

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It is of small consolation to users of coastal shipping that owners/operators of ships and seagoing unions are self-congratulatory about savings received under the Crawford and MIDC schemes when these savings affect less than 25% of the fleet and still leave annual operating costs on the affected vessels well above that of similar vessels of comparable countries.<sup>14</sup>

Condensed, the report's major findings were that, notwithstanding the advances made by the Government committees, coastal shipping remained uncompetitive with that of other maritime nations with living standards similar to Australia's.<sup>15</sup> Moreover, it claimed, shipping's excessive costs and inefficiencies jeopardised the international competitiveness of other Australian industries using it.<sup>16</sup> If international freight rates applied on the coast, the IAC stated, Australia's real GDP would increase by between \$250 and \$550 millions per annum.<sup>17</sup> The main reason why shipping could be uncompetitive and still survive, the draft report said, was the exclusion of foreign flag competition under the *Navigation Act*, amounting to cabotage.<sup>18</sup> This could only be remedied "if competitive influences are allowed to operate in the sea-based and shore-based segments of the industry."<sup>19</sup>

Apart from its controversial recommendation regarding cabotage, the IAC draft report evoked criticism from the shipping industry because of the inaccuracies of some of its observations. One example was its statement that while the under-recovery of the infrastructure costs of road and rail provided them with an implicit subsidy, "coastal shipping is also subsidised."<sup>20</sup> The report's allegations of inefficiency were also challengeable.

Would anyone like to say publicly with any degree of testable surety that Australian owned operators of tonnage which carries tramp or bulk cargoes of any description are less efficiently run than their overseas counterparts? I do not know and I am sure

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<sup>14</sup> Industrial Assistance Commission, *Coastal Shipping: Part A: Summary and Findings*, Report 415, July 1988, AGPS, Canberra, p.xix.

<sup>15</sup> Ibid. p. xxv.

<sup>16</sup> Ibid. p. xxv.

<sup>17</sup> Ibid. p. xxv.

<sup>18</sup> "Cabotage, Coasting trade; reservation to a country of traffic within its territory." *The Pocket Oxford English Dictionary*, Clarendon Press, Oxford, 1975. p.107.

<sup>19</sup> Industrial Assistance Commission, *Coastal Shipping: Part A*, op. cit. p. xxvi.

<sup>20</sup> "There is in fact no subsidy for Australian shipping although many people confuse the effect on shipping of the subsidy on shipbuilding." Commission of Inquiry into the Maritime Industry, *Future of the Australian Maritime Industry*, Parliamentary Paper 314, 1976, p.2. The IAC also erred in equating the 7% taxable grant that was available only to certain vessels, the capital injections to ANL by the Government and the funding of Stateships by the Western Australian Government to the across-the-board benefits to road and rail represented by non-recovery of their social and infrastructure costs. IAC, *Coastal Shipping: Part A*, op. cit. p. 406.

that no one in the IAC knows. Remember we are talking about 93% of all cargo carried in coastal operations.<sup>21</sup>

This critic also challenged the IAC's assertion that shipping had lost its general cargo trades due to "high costs and poor record of service", pointing out that it had lost them to the superior efficiency of road transport for this type of goods. He concluded, "in this region the IAC report almost descends to tripe."<sup>22</sup>

The Government did not immediately act on the IAC report's key recommendation. However, this cannot be taken as evidence that at least some of its senior members, for example those that initiated the IAC's review, had not read its report and become convinced that the macro-economic consequences of continuing cabotage were too costly. Perhaps in the light of the subsequent weakening of restrictions on the entry of foreign ships to the coastal trades, the IAC report may thus have been a turning point in the history of cabotage by kindling the Government's private agreement with Opposition policy. In that case, protection of shipping by cabotage could expect a finite life whatever major political party held power. The IAC report, regardless of its flaws, had presented an opposing, independent view of the success and value of the revitalisation initiatives to a Government that had been an unequivocal supporter of shipping. This the IAC had done in the wider context of the Government's micro-economic reform programme by contradicting what it called the shipping industry's "self-congratulatory reports".<sup>23</sup> However, in the short term the Government apparently ignored the IAC and continued its mission of revitalising shipping by establishing the Shipping Reform Task Force (SRTF) in November 1988.

<sup>24</sup> This timing confirmed that, as late as the SRTF's appointment, the Government still

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<sup>21</sup> C. H. FitzGibbon, Reactions to the IAC Draft Report on Coastal Shipping, address to the Maritime Law Association of Australia and New Zealand, Sydney, 1/6/88. P102/24, NGB. FitzGibbon was a Director of the ANL and former General Secretary of the WWF.

<sup>22</sup> Ibid. A Government Minister, Senator Ray commented "Rather than bringing intellectual rigour to the debate ... the IAC has given credence to the advocates of the naïve simple solution school." *The AFR*, 27/4/88.

<sup>23</sup> Industries Assistance Commission, *Coastal Shipping Part A*, op. cit. p.xix. Because the ANL's sale originated with the Treasury's 1991 budget, it was perhaps significant that control of the IAC's investigation was transferred from the Department of Industry to Treasury soon after it began. *The AFR*, 22/7/87.

<sup>24</sup> Possibly because the IAC itself was apparently not in favour with the Government. "Government officials point to recent major IAC reports ... as failing to provide the Government with recommendations that can be implemented rather than simply serve as a basis for further negotiations." *The AFR*, 9/9/86.

intended to ignore the Opposition and the IAC and continue its attempts to breathe life into shipping, including its own Line.

The SRTF's terms of reference have a familiar sound, requiring it to:

...develop a strategy that ensures that Australian shipping makes a more valuable contribution to meeting the nation's requirements for competitive, efficient and reliable shipping services, both in our international and coastal trades.<sup>25</sup>

It was required to fulfil these terms by reporting on measures for providing dynamic and responsible shipping, placing Australian shipowners on a basis commercially competitive with foreign shipowners, further developing training and career structure strategies, and dealing with redundancies due to changes in manpower requirements.<sup>26</sup> Again a group including shipowner, union, and Government representatives left on an overseas mission to investigate how a number of major OECD maritime nations had dealt with similar issues. The SRTF's report, submitted to the Government in April 1989, appraised the competitiveness of Australian shipping against its OECD counterparts after the two preceding reform initiatives as regards both its capital and operating costs. Firstly, the report acknowledged the Government assistance provided to shipping following the work of the MIDC had by 1989 placed Australian shipowners in a similar position to their foreign counterparts as regards the capital costs of new vessels. However, this would change with the expiry of the *Ships (Capital Grants) Act* in 1992.<sup>27</sup> The SRTF therefore recommended the Act's extension for a further five years to avoid a "strong disincentive to any further investment in Australian shipping," and its broadening to make eligible for financial assistance the modification of existing ships to enable their operation with smaller crews.<sup>28</sup> Secondly, the SRTF estimated that the daily costs of a hypothetical Australian ship still exceeded those of its OECD counterpart by a 'competitive gap' of \$3,045. The report attributed the gap principally to crewing costs that could be reduced further by smaller crew numbers.<sup>29</sup> The report therefore proposed to reduce

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<sup>25</sup> Department of Transport and Communications, *Report of the Shipping Reform Task Force to the Minister for Transport and Communications*, op. cit, p.19.

<sup>26</sup> Ibid. loc. cit.

<sup>27</sup> "This analysis shows that ... because of the current fiscal regime, the capital costs incurred by Australian shipowners are similar to the costs incurred by many OECD owners under current exchange rates." Ibid. p.4.

<sup>28</sup> Ibid p. 12.

<sup>29</sup> The differential is provided by an SRTF model that averaged the daily costs of several OECD nations to obtain a hypothetical figure for comparison with those of an Australian ship, both with capital costs

the total number of seagoing berths in modern vessels across the Australian fleet by a further 600 by 1992, through compensating the men to leave the industry. It also suggested that if older vessels were appropriately modified, their manning could be reduced, and thus by 1992 the average size of Australian crews would be lowered from 29 to 21 men, and in modern ships to 17 or 18. Another aspect of operating costs considered in the report was the excise that Australian shipping had long paid on the marine fuel it used, amounting to \$36 millions annually. This represented a tax on coastal shipments of 5% of the total coastal freight bill, some of which, anomalously, was hypothecated to the development of shipping's competitor, land transport.<sup>30</sup> The report therefore proposed the abolition of the excise to provide equality of treatment with land transport modes.

In June 1989 the Government accepted most of the SRTF's proposals and introduced a reform strategy for shipping. Its major features included a programme to reduce crew numbers on all ships, to which the Government would contribute \$24,000 per person (capped at \$24 millions) over three years to establish an early retirement scheme for seamen leaving the industry under the reduction programme. The Government also agreed to provide \$5 millions over three years towards the non-tuition costs of an expanded retraining programme. Most importantly, the financial assistance of the *Ships (Capital Grants Act) 1987* that had resulted from the work of the MIDC was extended for five years until 1997. Although the proposal for abolition of diesel fuel excise was not accepted, the Government adopted an alternative suggestion that rebated only the \$3 millions by which land transport benefited from the tax. A Shipping Industry Reform Authority (SIRA), comprising Government, shipowners' and unions' representatives, was also established for three years until 1992 under a Government-appointed chairman. Its function was to supervise the reform programme and the disbursement of Government funds.<sup>31</sup> During its existence the SIRA retrained a total of 1,574 seafarers to a higher level of competence to replace

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of \$40 millions. The SRTF study attributed 75% of the \$3,045 daily differential to crew costs, and only 2% to differences in capital charges. Ibid pp.23-26.

<sup>30</sup> "The objectives of the Shipping Industry Reform Authority are to promote, facilitate, and monitor the restructuring and revitalisation of the Australian shipping industry to improve its efficiency and international competitiveness through effective implementation of the shipping reform strategy." The Shipping Industry Reform Authority, *Progress on Shipping Reform*, SIRA, Canberra, June 1992. p. 9

<sup>31</sup> Shipping Industry Reform Authority, *Shipping Reform: Past Present and Future*, Canberra, undated, pp. 4,5. Following the submission of the SIRA's final report in June 1992, the Government extended its work for another three years, until 1995.

older, less skilled seamen who had opted to take paid redundancy from the industry. The SIRA's reforms thus succeeded in reducing the marine labour force without industrial dispute by 1,000 men (20%) more than already achieved by MIDC.<sup>32</sup>

An efficient waterfront was obviously as important to the major Australian users of waterside labour, Union, Brambles, Stateships and especially ANL, as to the foreign ships that carried the most of Australia's international trade. Thus, the Government's steps to reform stevedoring paralleled those relating to shipping.<sup>33</sup> The four bodies the Government had set up in 1986 on the recommendation of the Webber Task Force were coordinated by the Inter-State Commission (ISC), which was required to report on a strategy for stevedoring reform focused on reducing the shore-based stevedoring costs and inefficiencies identified by Webber.<sup>34</sup> When the ISC's report was tabled in 1988, the Government announced it would adopt its recommended reforms. An important item was the substitution for weekly hiring of productivity-based Enterprise Agreements (EAs). These, it was expected, would reduce labour's antagonism towards employers and foster a sense of identity with the workplace.<sup>35</sup> Another reform initiative was to increase productivity and rejuvenate the waterside labour force by retraining younger men to which the Government contributed \$154 millions towards redundancy payments to induce older workers to retire. Like shipping, the waterfront reforms were spread over three years and a Waterfront Reform Authority (WIRA) supervised implementation of the measures and disbursement of the Government's funds.

To this point the competitive force of the Government's influence was benign and directed towards improving shipping's profitability and competitiveness with foreign industries by providing financial assistance for new vessels while reducing the

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<sup>32</sup> Ibid. loc. cit.

<sup>33</sup> ANL's Annual Reports record a history of labour disturbances in its terminals. For instance, in 1987, "Of all the links in this long transport chain [ANL's business] the operation of ANL's terminals was foreseen as one immediate problem facing ANL in 1986/87. Unfortunately this forecast proved true." Again in 1989, "The Australian waterfront has traditionally been regarded as a major cost burden for users ... The process of reform to date has been slow compared to that in the maritime industry." And in 1990, "By comparison with the progress of shipping reform, criticism of the pace of waterfront reform is justified. ... ANL's shipping competitiveness continues to be seriously handicapped by waterfront inefficiencies." Australian National Line, *Annual Reports 1986, 1989, 1990*, pp.7,5,11 respectively.

<sup>34</sup> Department of Transport and Communications, *Report of the Industry Task Force on Shore-based Shipping Costs*, op. cit. p. 66-69.

<sup>35</sup> Interstate Commission, *Waterfront Investigation. Volume 1 Preliminary Findings*, AGPS, Canberra, 1988, p.5.

costs of crews and industrial disputation. The final Government initiative in shipping was less benign. It commenced in 1996 with the sale of the ANL. This removed from the new Liberal/National Coalition Government the need for policies that protected its own Line as well as other Australian shipping. The consequences of a Government without a shipping interest were long anticipated by the industry and were soon realised when a Shipping Reform Group (SRG) was established charged principally with 'examining options for the removal of cabotage,' the Coalition policy enunciated by Senator Hamer in 1986. The SRG's report in 1997 submitted a proposal for the withdrawal of restrictions on cabotage accompanied by others suggesting how its effects on shipping could be modified. The Government did not accept the SRG's report but did repeal the legislation that provided financial assistance for new construction. It also liberalised conditions for the issue of permits to allow foreign ships to carry coastal cargoes. These changes in policy were soon reflected in the decline of private investment in shipping that followed. The competitive force of these two policy decisions resulted in effects on industry profitability and structure opposite to those intended by its predecessor.

Contemporary with the shipping industry's reforms a similar Government stevedoring industry inquiry was proceeding under the Waterfront Industry Reform Authority (WIRA). Reaction to its work was ambivalent. For instance the Bureau of Transport and Communications Economics (BTCE) concluded that WIRA delivered substantial benefits, including reductions of 57% in the work force and \$76 in the cost of handling each container, estimated as saving shippers \$276 millions annually. WIRA also achieved a 50% increase in the rate of crane lifts.<sup>36</sup> However, a BTCE's study noted that in Australia's largest ports, Sydney and Melbourne, "...the EA [Enterprise Agreement] process has not been as successful and attitudinal change has been slower to develop."<sup>37</sup> Then in 1995, another study pointed out that after the WIRA's efforts Australia's best rate of 18.5 container movements per hour (Fremantle) still only approximated to the 17 per hour of Europe's poorest (Trieste).<sup>38</sup> Moreover, according to a paper prepared by the State Chamber of Commerce (NSW),

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<sup>36</sup> Bureau of Transport and Communications Economics, *Review of the Waterfront Industry Reform Programme*, BTCE, Canberra, 1995. pp. xvii et seq.

<sup>37</sup> *Ibid.* p.xx.

<sup>38</sup> Bureau of Industry Economics, *International Benchmarking Overview 1995; Report 95/20* AGPS, Canberra, 1995. p.54.

by 1996, four years after WIRA, time lost to unauthorised work stoppages had increased, crane movements had dropped and the productivity of Australian ports compared with those overseas had worsened.<sup>39</sup> The paper also noted that WIRA had produced very little change in the waterfront industrial culture of "... entrenched mistrust between management and unions ... which had spawned the rigid work practices and restrictions that mitigated [*sic*] against port efficiency."<sup>40</sup>

Thus the results of the Government's waterfront reform programme fell considerably short of the relative success of its shipping initiatives with seagoing labour.

### **Reform and Competitive Forces; Structural and Trading Effects.**

With the exception of ANL almost the entire Australian fleet was integrated with the operations of the mining and manufacturing sectors by the time of the reform initiatives. The improvement in shipping profitability that undoubtedly occurred in this period is therefore submerged in ANL's losses and the company profits of these new users. The quantifiable reductions in costs, and unquantifiable improvements in operational and administrative efficiency that followed the reforms therefore provide the best indicators for their successes and failures.

Up to June 1992, the general on-board effect of the SIRA's retraining and redundancy programme was to reduce crew numbers in existing vessels from averages of 31.2 in pre-Crawford ships to 25.5, and from 25.9 to 21.9 in ships built later, already fewer than the average manning levels of OECD vessels visiting Australia.<sup>41</sup> With these reductions, and the accompanying agreement that new ships would have crews of 18, it was estimated that the Australian vessels to which the agreement applied would save an average of \$700,000 per vessel annually.<sup>42</sup> In total, between 1989-90 and 1994-95 industry reform reduced annual labour costs from \$264 to \$221 millions (16%).<sup>43</sup> To this could be added other savings, such as in the capital costs of constructing new ships for lower crew levels. By 1990 sixteen new vessels were on order for the Australian fleet, reflecting the financial assistance that had

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<sup>39</sup> State Chamber of Commerce, New South Wales, *Turning the Tide: Waterfront Reform in Australia*. Sydney, 1996. p.6.

<sup>40</sup> *op. cit.* p.17.

<sup>41</sup> Bureau of Industry Economics, *International Performance Indicators, Coastal Shipping*, Research Report 55, AGPS, Canberra, 1994, p. 102.

<sup>42</sup> *Ibid.* loc.cit.

<sup>43</sup> Australian National Maritime Association, *Annual Reports 1991 and 1996*, p.28, p. 14.

followed from the recommendations of the MIDC, although with the exception of three, they represented larger replacements for existing vessels.<sup>44</sup> Nevertheless, between 1988 and 1994, the average age of the Australian trading fleet fell to ten years as shipowners invested \$1.7 billion in new vessels.<sup>45</sup> These incorporated the latest developments available to enable their operation by the smaller, better trained crews that were now being introduced. Other features, such as communal dining and recreation spaces, reduced the costs of construction and maintenance and helped to reduce on-board friction and tension by promoting familiarity. That such changes were no longer resisted by the seagoing unions indicates the success of the reform initiatives in improving labour relations for, commencing with the Crawford reforms, the number of seagoing berths was reduced from 3,019 to 1,758 by 1991, corresponding to a workforce reduction of 42%, without causing industrial disruption.<sup>46</sup>

Two more incidental benefits accrued from the reforms that, although unquantifiable, were nevertheless real and substantial. Simplification of the employer/employee relationship had commenced early in the 1970s with a shipowners' initiative that consolidated the employment conditions of all members of the seven seagoing unions into one document, the *Maritime Industry (Seagoing) Award*. Further rationalisation of shipping's administrative structure occurred in the early 1990s, as the financial pressures of declining union membership due to the reform measures created conditions conducive to union amalgamations. These rationalisations reduced the number of unions to three, representing respectively navigating officers, engineers and ratings, a trend promoted by both the Government and ACTU.<sup>47</sup> The amalgamations complemented the effects of the communal dining and recreation spaces in reducing inter-union disputation and merging crew social life. Another

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<sup>44</sup> The three were large tankers to carry liquefied natural gas (LNG) from the north-west shelf to Japan, the only new trade of the period. Department of Workplace Relations, *Australian Shipping 1997*, Canberra, 1997, pp. 18. In terms of fleet expansion the reform measures were therefore transitory, and by 1996 the vessels on order for all trades had declined to three. ANMA, *Annual Report, 1996*, p. 8. Again, the number of major Australian vessels declined from 76 to 62 and its deadweight capacity from 3.5 to 3.2 million tonnes between 1994 and 1997. Department of Workplace Relations, *Australian Shipping, 1994 and 1997*, op. cit, pp. 1 and 4 respectively.

<sup>45</sup> ANMA, *The Benefits of Having an Australian Fleet*, Occasional Paper Number Nine, Australian Shipowner's Association, 1994, op. cit. p. 5.

<sup>46</sup> Each berth requires 2.1 occupants because of the leave factor.

benefit of union rationalisation was the reduction in the time spent by employers in protracted negotiations with an unnecessarily large number of unions.<sup>48</sup> But the most apparent evidence of the improvements in labour relations following the reform initiatives was the decline in time lost by ships through industrial disputes. From its 1982 level of 4.06%, the total number of available ship days lost fell to 0.08% by 1990, and remained below 1% per annum thereafter.<sup>49</sup>

Through their association in the Government's reform initiatives, shipowners developed a sense of community of interest that led to a consolidation of their representation similar to that which had occurred among the seagoing unions. Until 1986, major operators BHP, ANL, Stateships and CSR had been members of the Australian Maritime Employers Association (AMEA) instead of the independent shipowners' ASOF. That shipowners did not speak with one voice had long irritated the Government and unions, making industry-level negotiations a cumbersome process. However, in 1986, moves by the ASOF initiated an Australian National Maritime Association (ANMA), whose chairmanship was offered to the managing director of ANL. After its establishment virtually all ship operators became members of ANMA. The ASOF was therefore wound up in 1987 and its industrial relations arm the CSOA in 1993, after which shipowners took more direct control of their individual labour relations.

An important result of the Government's three reform programmes, therefore, was that Australia now possessed a modern fleet with improved labour relations. It was efficiently equipped and manned, and the capital costs of new ships approximated those of its competitors. However the Government initiatives failed to close the competitive gap between Australian shipping's costs and those of its OECD competitors between which a daily differential of \$A3, 045 still existed. The greater part of this was attributable to the higher manning costs of Australian ships' two-crew

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<sup>47</sup> A further rationalisation occurred in 1993, when the loss of membership due to technology and fleet decline led the SUA, which represented ratings, to amalgamate with its larger waterfront counterpart, the WWF, to form the Maritime Union of Australia (MUA) to represent ratings and waterfront labour.

<sup>48</sup> Department of Transport and Communications, *Coastal Shipping: an Industry in Transition*. op. cit. p.7 The ratings' unions, however, would still not follow the WWF's example and agree to the removal of another barrier that distinguished them from officers, the direct employment of their members by shipping companies rather than their engagement through a Government operated 'pick-up.'

<sup>49</sup> Australian National Maritime Association, *Annual Report 1991*, p.5 Formed in 1986 to represent Australian shipping, ANMA's membership embraced virtually all shipowners. In 1994 it was renamed the Australian Shipowners Association (ASA).

system and the higher wages of Australian seamen to compensate for the unavailability to them of the taxation concessions allowed to foreign seamen in international trades.<sup>50</sup> While the Australian fleet was now both modern and efficient, little expansion occurred in either the domestic or overseas trades. In part, this was because the Government did not pursue an important recommendation of both the Crawford and MIDC committees, that it match its assistance in finding markets for other industries with attempts to obtain more access to Australia's overseas trades for its shipping industry. Crawford had first recommended in 1982 that the "Government should commit itself to support an efficient Australian industry" by encouraging the sale of exports on a c.i.f. basis, and by engaging in discussions with foreign governments to obtain a greater share of the cargoes passing between Australia and its trading partners for Australian shipping.<sup>51</sup> Again, the MIDC had later considered it,

...imperative that the Government should be ready to make representations to overseas interests where Australian shipping is unreasonably excluded from the carriage of Australian cargoes by overseas Government policies.<sup>52</sup>

Little Government action resulted from the perhaps unrealistic recommendations of these committees.<sup>53</sup>

If the quantum of increase in industry profitability following the reform initiatives is difficult to identify, the change in shipping investment after withdrawal

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<sup>50</sup> In 1989 the Shipping Reform Task Force (SRTF) had estimated the daily cost of crewing an Australian ship at \$A6,940 (100%), compared with an OECD average of \$A4,670 (67.3%). Department of Transport and Communications, *Report of the Shipping Reform Task Force to the Minister for Transport and Communications*, op. cit. But, "...an Australian who works in foreign service ashore enjoys concessional tax treatment under the Income Tax Assessment Act, whilst an Australian working in foreign service at sea does not enjoy concessional treatment under that Act." Australian Shipowners Association, Submission to the Australian Senate Rural and Regional Affairs and Transport Legislation Committee 2000, ASA Files, Melbourne. The effect of this anomalous application of the Tax Act is that Australian seamen's wages include a taxation component but those of foreigners in the Australian coastal and international trades do not. Thus, "The world rates [taxation] for seafarers of other nations on international routes assume access to no or low tax, and the gross rates of pay are set accordingly. Australians must have access to the same conditions to be viable, and removing this anomaly in the operation of section 23AG [of the Income Tax Assessment Act 1936] exemption holds the key." Australian Shipowners Association. Advice by Blake, Dawson, Waldron Solicitors to the Australian Shipowners Association, 3 December 1999, ASA Files, Melbourne.

<sup>51</sup> J. G. Crawford, *Revitalisation of Australian Shipping*, op. cit. p.38.

<sup>52</sup> Department of Transport and Communications, *Moving Ahead*, op. cit. p. 38.

<sup>53</sup> Following Crawford, the Government did appoint a Joint Shipping Task Force of the Departments of Trade and Shipping to look into such aspects of international trade as sales of cargo c.i.f., terms of trade, contribution by Australian shipping to the Balance of Payments etc. Its work was continued by TIAC and submitted in 1986 as *A Proposal for the Development of Australian Shipping*. The MIDC recommended that it be adopted, but there was no further Governmental action. Australian Shipowners Association, *Australian Shipping: Chronology of Structural Change*. Unpublished ASA Pamphlet, 2002, ASA Files, Melbourne.

of Government financial assistance for new ships in 1996 is not, as the correlation between investment and the size of the national fleet in Table 8.1 shows.

**Table 8.1**

**Number of Australian Vessels and Investment (Disinvestment) in \$'s  
Millions 1991-2000**

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Fleet	79	78	78	78	73	69	64	61	57	49
Invest't	326	(26)	440	69	506	(43)	11	29	80	(98)

Source: ASA Submission to Senate Rural and Regional Affairs Committee, 2000.

The results of reform were positive over all and although not as far-reaching as some had hoped, the manning reductions and financial assistance they included were available to all Australian ships that qualified for them irrespective of their ownership. Analysis of the incidence of these benefits shows that their diffusion across of the industry differed between its segments.

Between mid-1984, when the Government's financial assistance for shipbuilding recommended by Crawford became available, and 1995, thirty-six new vessels totalling 1.714 million deadweight tonnes were constructed.<sup>54</sup> However, few were built by the independent, entrepreneurial sector of shipping to enter new trades. On the contrary, twenty-seven of the new ships were dry and liquid bulk carriers such as the fifteen tankers, all except one controlled through ownership or long-term charter by petroleum and chemical companies entirely or substantially based overseas.<sup>55</sup> The twelve dry bulk carriers were built to integrate with the mining and manufacturing operations of their owners, which included a foreign mineral company (2), BHP (5), CSR (2) and Ampol (1). Smith was the only major independent Australian company to benefit from this expansion in the bulk trades, and built two tankers for charter to the major oil companies and a bulk carrier. Minor companies

<sup>54</sup> The main purpose of this spectacular building programme was to replace smaller, obsolescent ships with larger, more efficient vessels, rather than to expand into new trade. Between 1984 and 1985 the composition of the Australian trading fleet changed from 109 vessels to 82 vessels totalling respectively 3.47 and 3.30 million tonnes deadweight. The lifting capacity of the fleet therefore declined. Department of Transport and Communications, *Australian Shipping 1984* p. 1. Department of Workplace Relations and Small Business, *Australian Shipping, 1996*, p. 1.

<sup>55</sup> Department of Transport and Communications, *Australian Shipping 1988*, Tables 2, 3, 4, 5. Department of Workplace Relations and Small Business, *Australian Shipping 1996*, Tables 2, 3, 4, 5.

also built two small bulk vessels for charter to mining and manufacturing interests.<sup>56</sup> The financial assistance available for new construction sparked weak response from the government lines. Stateships' perennial losses put it as much out of favour with the Western Australian government as was the ANL with its counterpart. So the former built no new vessels while the ANL, in financial trouble and now responsible for finding its own capital, built two small coastal container ships and a larger international one to replace existing ships. The financial results of both lines benefited from the reduction in crew numbers under the reform processes.

BHP, whose vessels were integrated with its main businesses, was the major Australian shipowner to benefit from the reforms and among the ships it built for its trades during this period were the three largest vessels it had yet owned. These were employed on a triangular route carrying coal to Japan under a three-year contract BHP had won, returning via Port Hedland to load iron ore for its Newcastle and Port Kembla steelworks.<sup>57</sup> Soon these were followed by another vessel of almost double their lifting capacity, which occupied a slightly different trading pattern.<sup>58</sup> BHP built two more ships during the reform period: its first tanker for the carriage of crude oil in the international and coastal trades, and a coastal bulk carrier.<sup>59</sup> In 1989, a rare opportunity for Australian flag vessels to enter a new trade occurred when the trade in liquefied natural gas (LNG) from the North-West Shelf project to Japan commenced. Fearing industrial disruption of these expensive ships and their vital cargoes if they were manned entirely by foreigners, the participants in the project, which included BHP, agreed to man four of the eight vessels built for the trade with Australians at the reduced post-reform levels. However, while these vessels created more employment for Australian seamen, Australian investment was restricted to that of BHP as a

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<sup>56</sup> Ibid. loc.cit.

<sup>57</sup> The ships *Iron Newcastle* and *Iron Kembla*, each of 148,140 tonnes deadweight, were delivered in 1985 and 1986, respectively. D. M. Riley and D. Crisp, (ed), *The Iron Ships a Maritime History of BHP*, op.cit. pp.109, 110.

<sup>58</sup> The *Iron Pacific* was of 232,375 tonnes deadweight and carried iron ore to South Korea on the outward leg of its voyage. Ibid pp. 114, 115.

<sup>59</sup> The 87,241 deadweight *Iron Gippsland* and the 49,800 deadweight *Iron Chieftain*, respectively. Department of Transport and Communications, *Australian Shipping 1986*, p.9. In 1992 BHP too put its expertise in the handling of bulk cargoes to use by establishing international bulk and break-bulk shipping businesses in California, using chartered vessels. Ibid. pp.115, 116.

participant in the venture.<sup>60</sup> In 1993 the availability of the Government's financial help during its revitalisation programme was also used by the other remaining integrated shipowner, CSR Limited, to build a self-discharging bulk carrier to carry the product of its subsidiary, Goliath Portland Cement Limited.<sup>61</sup> A small general cargo vessel, delivered to Perkins for its Darwin south-east Asia trade, provided the only other participation by private Australian shipowners in the reform-assisted building programme.<sup>62</sup>

The financial help for new construction was therefore successful in encouraging the construction of new ships but did not strengthen Australian ownership of the national fleet because

The coastal shipping industry is dominated by shippers [owners of the vessels' cargoes]: over 90% of the tonnage moved is in ships owned or controlled by shippers (more if the task is measured in tonne-kilometres).<sup>63</sup>

These new vessels were preponderantly directly owned by manufacturing and mining companies or employed by them on long-term charters at rates that depressed shipping's profitability and its attractiveness as an investment. Porter applies the term 'tapered integration' to the control that strong buyers are able to exert over weak sellers.<sup>64</sup> Such buyers, he says, are able to more than support an in-house operation, and to threaten full integration of the sellers' operations with their own. That they chose not to do so, he says, is because tapered integration reduces the risks of their own involvement and provides informational benefits. This, Porter notes, is behaviour characteristic of the international oil companies who purchase tanker shipping services to complement their own fleets. Most of these new users of Australian shipping were major international shipowners, especially the oil companies, who were certainly capable of providing and operating their own vessels. But by using Australian companies in subsidiary management roles instead of providing their own infrastructure they avoided the risk that employment conditions of Australian crews

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<sup>60</sup> The first of the vessels, all of 125,000 cubic metres capacity, loaded its first cargo in July 1989. The Australian fleet was managed on behalf of the consortium by the Australian LNG Ship Operating Company (ALSOC), managed by BHP. Ibid. pp.120,121.

<sup>61</sup> Department of Workplace Relations and Small Business, *Australian Shipping 1997*, Canberra, 1988. p. 18.

<sup>62</sup> Ibid.

<sup>63</sup> Department of Transport and Communications, *Report of the Shipping Reform Task Force 1989*, op. cit. p. 16. The report estimated remaining 10% comprised 4% general cargo and small, irregular bulk shipments by companies that did not own vessels but used the surplus capacity of the major operators.

<sup>64</sup> Michael E. Porter, *Competitive Strategy*, op. cit. pp. 319, 320.

would flow back to oil industry employees. They also obtained the benefit of Australian companies' local knowledge and relationship with Government. That modest management fees were welcomed by companies accustomed to seek the returns of independent investors reflects the decline of their profit horizons since losing their own trades. The influence on industry profitability and structural change exerted by these new important users of Australian shipping define them as one of the main competitive forces of shipping's explanatory framework active after 1985.

The influence of Government policy, the other most active force of the explanatory framework in this period, and its effect on profits appears in several contexts during this period. Firstly, through its reform initiatives, whatever their deficiencies, the Government's financial support of new shipbuilding and crew reductions assisted profitability by reducing the cost of factors the explanatory framework sees as a competitive force. The main beneficiaries of the initiatives and reforms, however, were the mining and manufacturing sectors, especially the international oil companies, because of the number of new vessels they constructed. In the sense that the reform measures promoted the further integration of Australian shipping with the trades of its new users, their results were contrary to their intent..

## II

In 1986 the conditions that earlier prompted the reform initiatives still existed. The international shipping recession persisted and from 1987 the Australian economy also descended into a recession that lasted into the early 1990s. The exposure of private and government sectors to these conditions differed but both were affected by them

### **The Trading Environment; Decline and Sale of ANL**

The weak response of the two largest independent groups, TNT and Smith to the financial assistance provided by the Government's reforms was not entirely because of conditions in the domestic economy, or due to the effects of international recession. It was because regardless of the Government benefits they preferred to invest in offshore shipping. The apparently rash overseas marine ventures of these companies during an international shipping recession succeeded because they sought out the profitable niches that still existed in foreign trades for shrewd investors. Firstly, McIlwraith invested \$17.5 millions in 1986 to acquire a 20.5% holding in

Chuan Hup Marine Limited, a Singaporean company that traded between North America, the Middle East and South-East Asia.<sup>65</sup> Some eighteen months later McIlwraith sold this shareholding for a substantial profit of \$17.7 millions, but had meanwhile, for an undisclosed sum, acquired 70% of the Singapore Shipping Corporation, a large operator of container feeder services in the South-East Asia area.<sup>66</sup> The company was clearly pleased with its overseas ventures, which contributed to a record net profit for the year ended 30 June 1987, and announced plans for further overseas ventures including “hopes to establish a trading operation in addition to coal export and shipping.”<sup>67</sup> TNT’s success also continued, with its profits increasing by 51% and a further 75% for the years ended June 1986 and 1987. This was due to its existing operations, including the foreign earnings of its Shipping and Development division (formerly Bulkships), and the equity accounted profits that Union and McIlwraith earned overseas.<sup>68</sup> TNT’s interest in overseas shipping was further strengthened in the 1980s by the construction of a fleet of support vessels built to service the exploration and operation of the North Sea oil fields. Meanwhile, in 1987 Smith also ventured offshore by purchasing the North British Marine Group, an operator of towage, salvage, shipping and associated services in the United Kingdom.<sup>69</sup> Smith proceeded to formulate plans “for the further development of companies in the North British Marine Group”, which it saw as “the first in a series of offshore acquisitions.”<sup>70</sup> TNT and Smith each operated one ship only overseas that like their coastal vessels were secured by extended charters, so the domestic and international shipping of these two private groups were therefore well protected from international and domestic recession.

The two Australian companies most exposed to events in international shipping were BHP and the ANL. The former had ten vessels in overseas trades and five in coastal, and for the ANL the numbers were thirteen and ten ships respectively. However, while BHP’s vessels trading overseas were employed in that company’s

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<sup>65</sup> McIlwraith thereby became the second largest shareholder in Chuan Hup Marine Limited. *The AFR*, 29/7/86.

<sup>66</sup> *The AFR*, 18/3/87.

<sup>67</sup> *The AFR*, 18/9/87.

<sup>68</sup> *The AFR* 17/9/86 and 8/9/87. TNT’s Chief Executive, Sir Peter Abeles “forecast even greater growth this financial year mainly through improved performance by the company’s existing operations.”

<sup>69</sup> *The AFR*, 5/6/87.

<sup>70</sup> *The AFR*, 29/10/87.

own trades on long-term charters, ANL's were common carriers in the high risk general cargo trades, or large bulk vessels reluctantly chartered by Japanese steel mills in their iron ore trades. Conditions in the international trades were therefore important for the ANL because of its exposure and for Australian shipping generally because of the Line's significant position in the industry. While a chronological account of the rapid and sometimes confusing developments in international shipping of the 1980s and 1990s might otherwise be out of place in what is essentially an analysis of post-war changes in a small coastal shipping industry, mention of some principal factors is merited because of their effects on ANL.

Trace thus describes the place of recession in the shipping business cycle:

Shipping is a 'feast or famine' business. In good years, excess demand for shipping tonnage sharply increases freight rates in the bulk trades. Profits earned in such years enable owners to survive through the lean years, when the rate of growth of world seaborne trade slackens and when ships ordered in the previous boom add tonnage to the world's fleet. In such periods 'too many ships chase too few cargoes and freight rates fall.'<sup>71</sup>

The most severe postwar international shipping recession originated with the oil crisis of the early 1970s and led to a surplus of shipping with the effects on cargoes and freight rates described by Trace. In 1983 the glut was exacerbated by a severe recession in global trade. A brief recovery was followed by a second recession in 1985-86 as a drastic fall in the price of crude oil caused the Middle East trades, already weakened by the first Gulf War, to collapse. A sharp devaluation of the US dollar, the currency of most shipping charters in 1985, and the stock market crash of 1987 sustained the crisis in international shipping. The effects of events subsequent to the 1973 oil crisis were initially most felt in the international bulk sector. Following a weak revival in 1978-79 bulk freight rates again collapsed and by 1983-84 had reached new lows. The ANL's four bulk carriers negatively affected its profitability throughout their trading life. In contrast to the depressed stability of the bulk trades, Broeze suggests the container industry of the period could be described as 'one of massive uncertainty and major change.'<sup>72</sup> The response of the international industry to the shipping recession was to seek economies in two broad areas: enlargement of scale and reduction of operating costs.

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<sup>71</sup> Keith Trace, *Privatising the National Line*, *Agenda*, Vol. 2 Number 4, 1995. p.436.

<sup>72</sup> Frank Broeze, *Globalisation of the Oceans*, op. cit. p. 113.

The former occurred by rationalisation that reduced the ranks of traditional liner companies by takeover, demise or withdrawal. The search for economies of scale stimulated concentration of container shipping resulting in the increased size of companies by growth, takeovers and mergers and also in their individual market shares, although the entry to the industry of several powerful new competitors reduced the effects of these economies.<sup>73</sup> Some conservative operators reduced operational costs by introducing larger, more fuel efficient ships with smaller crews and replacing the turbines of some vessels with more economical diesels and operating at lower service speeds. Others switched to cheaper registers with no or little taxation, or to their second registers that allowed employment of cheaper foreign crews under their national flag. Companies renegotiated high-cost loans they had taken in the 1970s. Routing also played a vital part in container shipping's attempts to survive its crisis and the attempts by groups to increase market share. One development was intermodalism, the use of rail by shipping companies to penetrate inland markets previously served through different ports. This reached maximum cost and delivery time effectiveness in the USA with the movement by the newly de-regulated USA railways of containerised East Asian imports landed at west coast ports to the large hinterland and eastern states' markets previously served through Atlantic ports.<sup>74</sup> Another initiative was the introduction in 1984 of round-the-world services that for one operator reduced costs per TEU mile to 3.5/4 US cents, partly because the occupation rate of containers per slot was raised to three compared with two for a conventional end-to-end voyage.<sup>75</sup> Under pressure to achieve economies of scale the size of container vessels increased and by the early 1990's many were too large to transit the Panama Canal. The response was the introduction of 'pendulum' services that, for instance, linked East Asia, Europe and North America with voyages between USA east and west coast ports via Asia and Europe. Broeze described the 1990s as

... characterised by globalisation and the relentless drive of operators to lower costs through enlargement of scale in an industry environment of a chronic tonnage surplus and falling freight rates.<sup>76</sup>

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<sup>73</sup> Most major new entrants were Asians including China Overseas Shipping Corporation (COSCO), Evergreen (Taiwan), Korea Shipping Corporation (KSC), Hong Kong's Orient Overseas Container Line (OOCL), Singapore's Neptune Orient Line (NOL) and Malaysian International Shipping Corporation (MISC). The Koreans Hanjin, Cho Yang and Hyundai also became players.

<sup>74</sup> The similar inter-modal use of the European and Trans-Siberian railways were less successful.

<sup>75</sup> Frank Broeze, *Globalisation of the Oceans*, op. cit p. 94.

<sup>76</sup> Ibid. p. 115

Globalisation had two principal aspects; the growth of 'mega carriers' formed by alliances between major operators by takeovers and mergers, and a corresponding increase in size of the vessels engaged in their trades. Inasmuch as the alliances' purpose was to provide global networks of container services they differed from the consortia of containerisation's early days formed to share the costs of containerisation that operated in a single trade and shared the costs of marketing services. The size of vessels increased to exceed 6,000 TEU's.<sup>77</sup> It was inevitable that the costs would preclude calls at ports with slow working rates that service thin trades, such as Australia's, whose needs were increasingly met by smaller vessel feeder services to hub ports such as Singapore or Hong Kong for transshipment to the larger vessels.<sup>78</sup> Consolidation of companies' interests by merger and alliances reduced the importance of Conferences in some trades but without destruction of the system in those that were the ANL's principal focus.

As these developments evolved during the 1980s and 1990s, there were times when supply of container vessels approximated to demand but generally the period was characterised by a glut of tonnage. In the late 1970s the entrance of the prominent Asian operators extended the surpluses that originated in the oil crisis of 1973. Subsequent re-equipment programmes to provide the larger vessels necessary for the round-the-world services and even bigger ships as the search for scale economies exacerbated the surplus. The net effect was an increase in the capacity of the world container fleet from 1,200,000 to 3,200,000 TEU's between 1980 and 1990 and by 1999 the top twenty container operators (which did not include ANL) alone controlled almost 32 million TEU slots of which one, Maersk, had 600,000.<sup>79</sup> This inevitably resulted in a decline in the profitability of eleven main line container operators to margins that in 1996 varied from a maximum of 2.8% to a minimum of -0.4%.<sup>80</sup>

For several years ANL's uncertain profitability had been attributed to various causes, then in 1980 the Line's annual report attributed its loss of \$8 millions to the effects of developments in its containerised international liner trades:

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<sup>77</sup> TEU is the internationally accepted acronym for 'twenty-feet equivalent unit' the standard container. The number of TEU's a vessel can carry is thus a measure of its capacity for this cargo.

<sup>78</sup> Keith Trace, *Australia and the Global Container Market*, op. cit. p. 20

<sup>79</sup> Frank Broeze, *Globalisation of the Oceans*, op.cit. p. 80.

<sup>80</sup> Ibid.

The consolidated result of the Australian Shipping Commission ... must be looked at against the background of international trading which continues to be depressed in volume and freight rate terms, reflecting the general world scene.<sup>81</sup>

It was mainly because of the ANL's condition in the early 1980s that the Government commenced its reform initiatives and in 1983 the Line required its first injection of Government capital to rescue it from bankruptcy. The efforts of ANL management to overcome its problems fell into two broad areas. The implementation of a five-year plan to alter its business culture that was a condition of the Government's financial assistance, and other measures to reduce costs in the Line's domestic and international trades reflective of those adopted by the major international operators. The plan included staff reductions, exiting unprofitable trades, reduction in fleet size and providing any capital it required from its own resources.<sup>82</sup> The five-year plan resulted in a staff reduction from 3,138 in 1986 to 1,421 by 1990 and, between 1983 and 1990, the withdrawal from unprofitable trades and disposal of "under-utilised" vessels that reduced the ANL's fleet from 33 to 13 ships.<sup>83</sup> With this reduction the ANL's fleet was overtaken numerically by the fleet of BHP that then became the largest Australian shipowner.<sup>84</sup> The culmination of the plan was the incorporation of the ANL as a public company in July 1989. This was part of the Administration's policy intended to free Government Business Enterprises (GBEs) such as the ANL "from day-to-day Ministerial control, and to provide them with the flexibility to operate commercially."<sup>85</sup> The ANL's revitalisation measures succeeded to the extent that in 1985 and 1986 it delivered group net profits of \$19 millions. The Line's shipping operations were comprised in ANL Limited, the viability of which can be assessed from its after tax operating results that were profitable until a negative result of \$6.4 millions in 1991/92. These results thereafter remained negative for the

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<sup>81</sup> The Australian National Line, *Annual Report 1980*, p. 3.

<sup>82</sup> A condition of the Government's capital injection in 1983 was that ANL fund its own vessels.

<sup>83</sup> The Australian National Line, *Annual Report 1990*, p. 2. Among these were the termination of the ANL's contract to lift Christmas Island phosphate in 1988 and the return to their owners of the chartered vessels it had taken over from BPC. The Line also sold the *Flinders Range*, built for the phosphate trade, and lost its lucrative contract to carry Tasmanian newsprint to the mainland to Brambles, which caused the sale of another vessel. *The AFR*, 7/1/88.

The three remaining large "P" class bulk carriers built for the Japanese iron ore trades were also progressively sold during the rationalisation process. The Australian National Line, *Annual Report 1991*, p. 24.

<sup>84</sup> The Department of Transport and Communications, *Australian Shipping 1988*, Table 4.

<sup>85</sup>

The Australian National Line, *Annual Report 1990*, p.2. With ANL's incorporation the Australian Shipping Commission ceased operations after 33 years as a Statutory Authority.

remainder of the Line's existence.<sup>86</sup> When the five-year plan ended, its apparent success encouraged ANL's management to begin a five-year Corporate Strategic Plan, a key element of which was to acquire ancillary assets to develop the Line into a provider of integrated transport services. This foreshadowed,

...an expanded business base, resulting from the adoption of more clearly defined customer and market-oriented strategies. One of the keys ... will be its capital investment programme aimed at upgrading its vessels and equipment. To support this programme, appropriate funding arrangements are being developed aimed at avoiding the high gearing difficulties experienced in the early 1980's.<sup>87</sup>

In 1990 the Line reported it was in discussions with the Government to ensure that it had an "appropriate and commercially acceptable capital structure to support its replacement programme." The 1991 annual report again states the need for ANL to "expand its capital base", believing that:

...servicing the debt required to fund the re-equipment programme will strain ANL's prudential ratios and inhibit its ability to take advantage of new business opportunities ... Unless it is addressed in the near future this inadequate capital base will restrict the growth of sustainable long term profits.<sup>88</sup>

However the Line continued with its strategic plan, pursuing viability through diversification and rationalisation of its trades and management and in 1991 took two steps to improve profitability that in earlier years would have been unthinkable. Firstly, the ANL established the Coastal Express Line Proprietary Limited (CEL) with its former rival Union, to operate rationalised services between the mainland and Hobart and across the Bass Strait. This enabled the services of both companies to be maintained with a reduced number of total vessels engaged.<sup>89</sup> Secondly, the ANL followed the growing trend and put its vessels out to management by forming ASP Ship Management, an unincorporated joint venture in which ANL and its former rival Associated Steamships Proprietary Limited held respectively 60% and 40% interests.<sup>90</sup> The ANL's annual reports of the period express justifiable satisfaction with its progress but also began to emphasise the effects of reduced cargoes and

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<sup>86</sup> The Australian National Line, *Annual Reports, 1987 to 1991* inclusive. Sales of vessels partly offset the losses in some years. "Sources say operating profit would be negligible and that most of this figure [the \$13 millions 1991 profit] would be made up of ship sales." *The AFR*, 2/1/92.

<sup>87</sup> The Australian National Line, *Annual Report 1989*, p. 5.

<sup>88</sup> *Annual Report 1991*, p. 2.

<sup>89</sup> The Australian National Line, *Annual Report for 1992*, p.1. A similar proposed merger between the Tasmanian services of ANL, Holyman and Union was blocked by the Trade Practices Commission in June 1987, *The AFR*, 30/6/87.

<sup>90</sup> The Australian National Line, *Annual Report 1992*, p.1.

aggressive competition from non-Conference newcomers that the Line at first attributed directly to the shipping recession.

As Trace points out recession, results in too many ships chasing too little cargo so freight rates inevitably fall. The major international container operators responded to the sequence of recession, tonnage surpluses and increased competition with economies achieved by enlargement of scale through capital investment, formation of alliances and reduction of operating costs. As the recession's chain of events impacted adversely on ANL's profitability some of the steps it took to meet the challenges to its operations paralleled those of the international operators. An outline of these problems and responses explains the Line's continuing losses that partly account for its sale.

The ANL's small size and business profile disqualified it from joining the alliances into which the major operators were coalescing and the Government's requirement the Line provide its own capital put the larger ships they used well beyond its means. Unable to make the routing changes of larger operators or enter their alliances, the ANL tried in 1987 to fortify its trading position by ending its relationship of 18 years with ACTA. Thereafter its European services were independently marketed, although they remained integrated with those of the conference. In 1988 the Line reported 'extremely difficult' conditions in its UK/Europe trade, including a claim against its consortia partners under Part X of the *Australian Trade Practices Act* that their agreement did not give the Line equality of treatment. This was resolved to the ANL's satisfaction the following year when the consortium agreed to charter the Line's single remaining vessel in the trade for two years thereby giving it an increased share of the trade and extending the service to New Zealand.<sup>91</sup> It was a reciprocal slot charter agreement but one that represented a dilution of the national identity factor important in international liner trades. In an attempt to ease the pressures on ANL's services to North and East Asia from non-conference operators, in 1990 the Line and its associates restructured their two trades with Japan/Korea and East Asia into a single service to the major ports of both regions to which the ANL contributed two vessels. The introduction to this trade of the *Australian Endeavour* in 1991 was the Line's first attempt since 1977 to re-equip its fleet. The ship's 2,688 slots made it larger than average for the trade but in its

chronically unprofitable UK/ North Continent service the Line remained represented by a vessel of only slightly greater capacity compared with the vessels of 4,550 TEU capacity then being used by others on that route. Broeze notes that conferences were collapsing 'under the weight of rapidly rising over-capacity' to be replaced in some instances by different freight standardisation arrangements.<sup>92</sup> However,

ANL recognises the proven benefits that the shipping Conference system brings to both exporters and importers which are embraced by governments throughout the world. By virtue of its co-operative arrangements with various joint venture partners, ANL is able to be more market responsive and has access to almost 50 vessels.<sup>93</sup>

It must be assumed that views so strongly and clearly expressed also reflected the Governments' views. The Line remained in the Conferences it had joined throughout the recession although its wisdom in doing so can be questioned because of the restrictions this placed on its freedom of action.

The crewing reductions of the Government initiatives certainly reduced operating costs, but insufficiently to make the ANL competitive in the international or coastal liner trades. The Line also made a modest attempt at intermodalism in its coastal trades in 1988 by linking its Bass Strait Searoad Service with road and rail modes on the mainland and in Tasmania.<sup>94</sup> It also set up Linertrains, a joint venture with P&O. This was essentially a freight forwarding venture complementary to shipping that by 1992 used express rail services to move 82,000 TEU's annually mainly between eastern states' capitals. But the greatest need for the under-capitalised Line was to scale down the high interest payments on its heavy foreign borrowings that were difficult to meet from reduced revenue and to minimise its exposure to currency fluctuations. Sale of tonnage made surplus by withdrawal from unprofitable trades assisted but The ANL's Annual Report for 1990 advises it had finalised a three-year Promissory Note facility for \$200 millions in Australian dollars with a consortium of banks. This financed the three new replacement vessels the Line ordered for its Asian and Bass Strait trades and the set-up costs for its business

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<sup>91</sup> *Australian Venture* was chartered to ANZECS, the Australia New Zealand Europe Container Services.

<sup>92</sup> Frank Broeze, *Globalisation of the Oceans*, op. cit. p.159 et. seq.

<sup>93</sup> The Australian National Line, *Annual Report 1992*, p.8.

<sup>94</sup> By 1996 ANL was also providing transshipment services between Australia and a range of Asian and sub-continental ports. In the same year it reduced its Western Australian link of its North Asia trade to a slot chartering operation. The Australian National Line *Annual Report, 1996*, pp. 9,10.

expansion, avoiding the foreign currency exposures of earlier building programmes.<sup>95</sup> However in 1991/92 the ANL Group revealed a negative operating profit after tax of \$ 6.4 millions and the Government announced it intended to sell part of its Line. Further operating losses of \$28.1 millions in 1992/93 and \$23.8 millions in 1993/94 confirmed that notwithstanding ANL's earlier apparent profitability the efforts of a small player to counter the challenges to its profitability of the international liner markets and domestic recession were unsuccessful. As early as 1986 the Coastal Shipping Commission reported, "...the outlook for 1986/87 remains bleak as the depression in world shipping, already the worst since the 1930's, continues to deteriorate."<sup>96</sup>

Every Chairman's Annual Review of the ANL's activities thereafter refers to the combined adverse effects on profits of general conditions, like the continuing recession in international shipping that increased competition from flags of convenience, and specific causes such as the wool trade's collapse that drove freight rates to a ten-year low.<sup>97</sup> These repeated references by the ANL's management to international trading conditions make clear they were considered principally responsible for the Line's problems.<sup>98</sup> When explaining the losses in the North and East Asia and European services the Line's Chief Executive Officer frankly admitted in 1994 the Line's slender resources precluded an effective response.<sup>99</sup>

There are various reasons for these losses which reflect ANL's position as a relatively small container line in world trade terms. ANL has to compete with rapidly

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<sup>95</sup> Apart from new ships, a feature of the Strategic Plan's investment programme was to "...fundamentally change ANL's character from that of a wharf-to-wharf ship-oriented operator, as it was in the 1980's to that of a door-to-door customer-oriented transport operator in the 1990's." The Australian National Line, *Annual Report for 1990*, p.3.

<sup>96</sup> The Australian National Line, *Annual Report 1986*, p. 5.

<sup>97</sup> For instance, ANL's Annual Reports for 1986 and 1987 both mention the adverse impact on ANL's performance of the continuing international shipping depression. That of 1988 refers to "Falling freight rates and severe competition from non-conference operators" in the trades with the Philippines and Hong Kong, while in the prestige UK-European service, ANL alleged it was "not being given equal treatment by its consortia partners." These conditions persisted into 1989 and 1990. Moreover, in the latter year the "Collapse of the international wool trade" further reduced shipping demand in the European trade, and by 1991 the Line was experiencing "the deep economic recession in Australia and a general downturn in world trade volumes." The Australian National Line, *Annual Reports 1986 to 1991*, inclusive.

<sup>98</sup> "Given the depressed state of world shipping in general, the Australian economy in particular, and ANL's continuing under-capitalisation, a continuation of last year's unprofitable trading was not unexpected." The Australian National Line, *Annual Report 1993*, p. 5.

<sup>99</sup> After ANL's consolidated operating loss before abnormal items of \$23.7 millions in 1994, further such losses of \$19.4 and \$11 millions were recorded in 1995 and 1996 successively. The Australian National Line, *Annual Report for 1996*, p.21.

emerging round-the-world “mega carriers” whose east/west services are supported by north/south feeder services to hub ports, not to mention other international lines many times its size. The economies of scale enjoyed by these lines ... cannot be replicated by ANL without changing its international relationships.<sup>100</sup>

By then the Government had decided to sell part of its ailing Line, a decision subsequently revised to a complete sale. This was welcomed by ANL’s management in the Annual Reports of 1991 and 1992 in the hope that privatisation would bring adequate capitalisation.

The privatisation of government enterprises that was sweeping Western economies was at first rejected by the Federal Australian Labor Government.<sup>101</sup> However, by 1987 a fragile economy had induced the Government to risk charges of hypocrisy and discard its traditional opposition to privatisation, to secure the funds needed to reduce interest rates and maximise its chances of re-election.<sup>102</sup> Thus by 1987 the ANL was included in a putative list of businesses for sale.<sup>103</sup> Over the next three years the Australian economy descended into recession, and by 1991 the Federal Budget forecast a deficit of \$13.4 billions. The Treasurer again proposed to offset the deficit by privatising some Government business enterprises, including the sale of a “substantial part” of the ANL, later defined as 49%.<sup>104</sup> Apart from the urgency of easing its budgetary difficulties, other factors may have influenced the Government’s decision. For instance, “The Keating Government – or more particularly the economic rationalists in the Finance Department have been determined to get rid of the ANL since 1990.”<sup>105</sup>

Again, the mention in the ANL’s annual report of its difficulties in meeting the interest on its loans for its new ships might have aroused the fears of a cash-strapped Government that its Line would require another capital injection.<sup>106</sup> Moreover, the Line’s 1990 post-tax operating profits of \$13 millions had become

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<sup>100</sup> The Australian National Line, *Annual Report 1994*, p. 3.

<sup>101</sup> “Privatisation has become a catch cry around the world. Indeed we are seeing the greatest exchange of money between governments and citizens in modern history.” *The AFR*, 28/2/86.

<sup>102</sup> *The AFR*, 3/4/87.

<sup>103</sup> *The AFR*, 18/8/87.

<sup>104</sup> *The AFR*, 31/7/98.

<sup>105</sup> *The Age*, 27/8/94.

<sup>106</sup> According to Dr. Keith Trace, “ANL had not gone far enough in terms of searching for a niche – it needed to adopt different targets and this would require another capital injection of around \$50 millions, this in addition to the amount required for debt reduction.” *The AFR*, 2/3/92.

losses by 1992 due to “lacklustre trading profits and the recession.”<sup>107</sup> These signs of declining profitability were unlikely to be reversed in the prevailing recessions. The ANL’s management was therefore required to begin “active steps to ensure that the organisation is adequately prepared for disposal.”<sup>108</sup>

The ANL was an icon of the marine unions. Nevertheless, because of the Government’s relations with the Labor Party, it was able to get the latter’s agreement to include partial sale of the Line in the 1991-92 Federal Budget.<sup>109</sup> Perhaps because a general election was due in 1993, the Government did not, however, hasten with its intentions. Thus by August 1992 the Line had “effectively been on the market since last year”, but had aroused little interest.<sup>110</sup> Meanwhile there were several factors that might deter a wary purchaser. Firstly, the international shipping recession continued and with it, the recent decline in ANL’s profits trended farther downward to become losses.<sup>111</sup> Then there was the Government’s stipulation that the purchaser must be an Australian company and that the ships must remain under the Australian flag and employ Australian seamen. Again, the prospect of being a junior partner to Government might have reduced the Line’s appeal to some purchasers.<sup>112</sup> By June 1993, the general election was over and there was still no firm interest from any buyer that fulfilled the Government’s requirements. Thus in June 1993 the Cabinet decided to remove the restrictions on foreign companies, which were now allowed to bid for up to 49% of ANL, and the requirement for the ships to remain Australian registered and crewed was also withdrawn.<sup>113</sup> This change in Government stance was described by a maritime union official as “an enormous breach of faith” that “... flies in the face

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<sup>107</sup> The Australian National Line *Annual Report 1992.*, p12.

<sup>108</sup> The Australian National Line, *Annual Report for 1992*, p.1.

<sup>109</sup> Keith Trace, *Privatising the Australian National Line*, Agenda. Volume 2, Number 4, 1995. p. 440.

<sup>110</sup> *The AFR*, 19/8/92.

<sup>111</sup> ANL’s financial statements for the year ended 1991 show an annual interest bill that had risen from \$18.5 to \$20.1 millions, a gearing ratio of 160%, and a decline in pre-tax profit to \$5 millions from the \$17 millions of the previous year. *The SMH*, 2/3/92. Annual before-tax operating profits of ANL Limited excluding abnormals thereafter became annual losses of \$ 9.04, \$28.1 and \$23.74 millions in 1992, 1993 and 1994, respectively. The Australian National Line, *Annual Reports 1993 and 1994* p. 20 and p.11, respectively.

<sup>112</sup> “Mr Keating ... said ... We have a decision of our party conference to sell up to 49% of it. We are now trying to establish where the company stands financially. That does not mean that when we find out we are going to sell 100% of it. That’s a matter for the processes of the Government and the Labor Party.” *The AFR*, 10/3/94.

<sup>113</sup> *The AFR*, 14/3/94.

of everything this Government has said since the March 1993 election ... I find the cynicism and duplicity of this government breath-taking.”<sup>114</sup>

Still no acceptable purchaser appeared by mid-1994 and, to improve the ANL's saleability, the Government decided to abandon its intention of retaining a shareholding of 51% and to seek the agreement of the Australian Labor Party's National Conference to the disposal of 100% of its Line. Meanwhile, the ANL was involved in several controversies that delayed the sale process. The first of these was a dispute between the Government and the ANL Board, which had resisted the Minister's pressure to sell the Line's minority interest in a stevedoring company.<sup>115</sup> Secondly, the Government received a due diligence report it had commissioned that placed a negative value on the ANL of between \$74.8 and \$117.8 millions.<sup>116</sup> The ANL's Board was thereupon dismissed and a triumvirate chaired by a former Labor party leader was appointed to begin a six-month restructuring of the Line.<sup>117</sup> The former directors were not given the opportunity to review the report prior to their dismissal.<sup>118</sup> However, they later rejected it because it ran counter to a positive valuation of between \$56 and \$90 millions prepared by ANL's auditors and supported by the Federal Auditor-General.<sup>119</sup> Nevertheless the Minister maintained his view of the ANL's condition by declaring, "You couldn't give it [ANL] away that is the reality ... it's a pretty dismal picture," and then withdrew the Line from sale for restructuring over six months by its new Board.<sup>120</sup> Thirdly, the controversy between the Government and MUA deepened when a Cabinet committee bypassed the new Board and sold ANL's minority interest in Australian Stevedores to the major

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<sup>114</sup> Ibid.

<sup>115</sup> In its Strategic Plan, ANL saw itself as "...an integrated door-to door transport operator for the Australasian liner trades, both domestically and internationally." The Australian National Line, *Annual Report 1990*, p. 3. Pursuant to this objective, the Line acquired a 25% interest in Australian Stevedores Holdings Proprietary Limited. The Australian National Line, *Annual Report for 1993*, p. 15.

<sup>116</sup> *The Age*, 9/9/94.

<sup>117</sup> Ibid. The ex Labor Premier of New South Wales, Mr. Neville Wran.

<sup>118</sup> ANL's dismissed Chairman later defended himself and his Board with claims that the ANL's problems were created by the Government's insistence on funding it by debt rather than equity, and that the Line had received capital contributions of only \$9.3 millions in cash since 1982/83, rather than the \$160 millions claimed by the Minister. He continued, "\$100 million of ANL's \$180 million debt in its balance sheet arose from the government itself refusing to provide the \$100 million in equity of an agreed \$400 million re-equipment plan designed to take advantage of the government's SIRA and WIRA reforms." *The Daily Commercial News*, 19/9/94.

<sup>119</sup> *The Age*, 17/9/94.

<sup>120</sup> Adding credibility to the Minister's view, the Board set aside a 'restructure provision' of \$79 millions. *The Age*, 23/8/94.

shareholder, at a price that provoked protest from the former Board.<sup>121</sup> The MUA reacted violently with a strike that paralysed Australian shipping and ports, because it saw this sale of an ANL asset as a Government attempt to pre-empt the labour movement's likely rejection of the Line's entire sale by selling it piecemeal beforehand.<sup>122</sup> After five days and Prime Ministerial intervention, the strike ended with the MUA agreeing not to oppose the 100% privatisation of the ANL in return for Government guarantees that foreign ships with foreign manning would not be admitted to Australian coastal trades.<sup>123</sup> Also, if an ACTU/ MUA consortium financed with trade union superannuation funds made the best offer for privatisation, the Government would take a 25% share.<sup>124</sup> To make Australian vessels more competitive internationally with cheaply crewed foreign vessels, the Government also agreed to relieve Australian crews from personal income tax while serving overseas in Australian vessels.<sup>125</sup> The terms agreed ended the strike, calm was outwardly restored, and in September 1994 the Labor Party conference approved the sale of the ANL.<sup>126</sup> But the acerbic exchanges between the Government on the one hand, and the union movement and former ANL Board on the other, during the heated confrontation, appear to have entrenched the Government's determination to sell its Line and leave shipping to fend for itself. The Government therefore sponsored no more initiatives to

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<sup>121</sup> *The Age*, 10/9/94. The ANL Board had previously justified the sale on the grounds that the Government would not accept the alternative to the sale of buying out the major shareholder Jamison Equity Limited for \$178 millions. *The Age*, 9/9/94. The former Board claimed that Jamison valued its 75% holding in Australian Stevedores at \$150 millions, and therefore the ANL should have realised \$37.5 millions for its 25% and not the \$28 millions obtained. *The Age*, 17/9/94 and 10/9/94.

<sup>122</sup> "The proposed sale of the Federal Government's shipping line, the Australian National Line, is headed for an overwhelming defeat, the Defence Minister, [Labor] Senator Ray conceded yesterday." *The Age* 15/8/94.

<sup>123</sup> During the acrimonious negotiations the Prime Minister was reported as accusing the MUA of behaving in an "immoral and unprincipled fashion. ... The Cabinet room may have heard stronger language but rarely had it witnessed such open hostility between the political and industrial wings of the labour movement." *The AFR*, 7/9/95.

<sup>124</sup> *The Age*, 15/9/94. The plan to use union superannuation funds to buy ANL was, perhaps, a pipedream that never materialised. As one observer put it "Imagine if you were the trustee of a union superannuation fund. Could you justly claim you were exercising your fiduciary responsibility by putting your members' savings into a company that has lost money for six out of the past seven years?" *The Age*, 16/9/94.

<sup>125</sup> *Ibid.* Section 23AG of *The Income Tax Assessment Act* exempts Australian residents generally from the payment of income tax after 91 days continuous service in a foreign country. Personal Tax concessions for overseas service are also available for seamen in a number of foreign countries, for example Britain. The proposal to extend the principle to Australian seamen, however, evoked strong press criticism. *The SMH*, 17/9/94.

<sup>126</sup> *The AFR*, 28/9/94.

revitalise the industry.<sup>127</sup> As the Federal Opposition had already made plain its aversion to the cabotage that was Australian shipping's principal protection, it seemed unlikely that the industry would receive any future Government support whichever party held office.

As the Government sought a buyer for ANL acceptable both to itself and the maritime unions, the list of possible purchasers was reduced by the Line's continuing losses. In these circumstances, any purchaser for ANL was most likely to be found among such mega carriers who could, perhaps, employ ANL's limited resources to round out their more comprehensive services.<sup>128</sup> P&O Australia Limited, a part of the British mega carrier P&O Limited, was such a buyer and in mid-1995 it offered \$19 millions for the ANL.<sup>129</sup> The Government accepted the offer provided that P&O fulfilled the conditions reinstated by the Labor Party Conference when agreeing to the ANL's sale, that ANL's ships remain Australian flagged and employ Australian seamen.<sup>130</sup> The P&O and MUA were thereupon put into talks under the chairmanship of the ACTU's secretary, which foundered in November 1995 because the purchaser could not guarantee employment of Australian crews in the ANL's Asian trades for ten years after acquisition, as demanded by the MUA.<sup>131</sup> The sale did not proceed, and the Government remained facing the dilemma of trying to sell its unprofitable shipping line in the face of union intransigence and the lack of a credible buyer. The Government therefore replaced ANL's interim Board with yet another appointed to 'restructure' ANL. This Board disposed of the Line by dismantling or selling its constituent parts, in a similar process to the sale of ANL's stevedoring company, which had initially raised the unions' ire.<sup>132</sup> Notwithstanding its poor financial

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<sup>127</sup> The depth of the rift between ANL and the Government is evident from the exchanges during the dispute between the Line's former chairman and the Minister, who claimed "that the ANL had been running at losses larger than it had been letting on to the Government or was aware of itself" *The Age* 27/8/94. He also "accused the [former] Board of repeatedly making ludicrous forecasts of ANL's potential while the company kept losing \$20 millions or more a year." *The Age*, 17/9/94). The Chairman, who denied the allegation, was then labelled a "bitter and twisted old man" by the Minister who had "lost more ships than a U-boat captain." *The AFR*, 19/9/95.

<sup>128</sup> Trace lists the ten major container operators, of which P&O/Nedlloyd was the largest. *Ibid* p.8.

<sup>129</sup> According to P&O's chief executive, "We are a big international company. I think we can put their [ANL's] operations into our operations ... which I think will regenerate ANL into a far more vibrant operation." *The AFR*, 4/9/95.

<sup>130</sup> *The Age*, 4/12/95.

<sup>131</sup> *Ibid*.

<sup>132</sup> The 'restructuring' consisted of selling ANL's various ancillaries such as terminals, freight forwarding and packaging that had supported its transition to an integrated shipping operation, dissolving others, quitting unprofitable trades and selling the ships employed in them. Thus in

performance, the ANL's sale did not meet with universal approbation.<sup>133</sup> However, the task was completed in July 1998, with the purchase by the French company CGM of the ANL's international Asian liner trades.<sup>134</sup> The sale of the ANL represented an end to the Government's role as a participator in the shipping industry although it still retained the capability of promoting further change. Relieved of concerns for the effects of its policies on its own Line, the Government was now able to exercise them more freely in regulation of the industry.

Under-capitalisation and too few resources spread too thinly among several consortia are often suggested as reasons for the ANL's failure. For instance Broeze argues

"... the ANL's resources were to be spread over all Australia's major trade routes; in consequence, the line would be utterly incapable of offering a service of any acceptable on any route if it stood alone."<sup>135</sup>

Thus,

... until it reached the end of its means-opponents would argue, until it paid out enough rope to hang itself-it became a partner in seven consortia on seven different routes using both fully-cellular and RoRo vessels.<sup>136</sup>

The decision that the ANL should so structure its business cannot be entirely attributed to its management. The decision to fund the Line substantially by debt rather than equity and the choice of its international services and unprofitable phosphate, Darwin and Japanese ore trades with their expensive vessels were made by

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December 1995 the ANL withdrew from its loss-making European trade and sold its ship, and also sold its 50% shareholding in Coastal Express Lines to Union, but the ANL vessels remained chartered to CEL to sustain the service. The Australian National Line, *Annual Report for 1995*, p. 2. In December 1996 the Line withdrew from the "significant" loss making trans-Tasman trade it had entered as a partner to the Shipping Corporation of New Zealand since 1983 and sold its two vessels. The Australian National Line, *Annual Report for 1997*, p.35. In 1998 the management of the two ANL bulk carriers engaged in the Weipa/Gladstone bauxite trade were transferred from ASP to another ship manager. In a sale contemporary with that of the international liner trades to CGM, the two remaining coastal bulk carriers were sold to an Australian/ Canadian consortium. *The AFR*, 31/7/98.

<sup>133</sup> The two former Transport Ministers, Mr Morris and Senator Collins, expressed dismay at the decision to sell the ANL; the unions made their disagreement known by their strike action. *The Age*, 10/9/94. Again, "It is hard to think of an act of economic vandalism in the period since Federation that can rank with the cold-blooded destruction of the Australian National Line by the Minister for Transport, Mr Brereton." *The Age*, 27/8/94.

<sup>134</sup> CGM added other vessels with foreign crews to the four ships still employing Australian crews it had acquired from ANL and continued to operate the Line's former services to the Far East, trading under the name of ANL. In 2001 CGM/ANL commenced a service to Singapore and resumed that with New Zealand.

<sup>135</sup> Frank Broeze, *Globalisation of the Oceans*, op. cit, p. 45.

<sup>136</sup> *Ibid*, p. 63.

the Government. The diffusion of ANL's resources to the extent that the Line was spread too thinly financially and in its trades has been contrasted with the three generic strategies of cost leadership, product differentiation and trade focus Porter suggests for coping with competitive forces.<sup>137</sup>

High cost Australian crews would have precluded the first of these. The ANL was unsuccessful in differentiating its domestic services from those of its main domestic competitors, road and rail, that eventually won all of shipping's contestable general cargoes. However as Trace suggests there were generic focus and differentiation strategies the ANL might have successfully pursued.<sup>138</sup>

In December 1983 the ANL Chairman partly explained the Line's losses to staff with the statement "We entered prestigious areas of business rather than profitable areas of business."<sup>139</sup> Again in 1991 he alluded to the Line's withdrawal from the Japanese bulk trades with, "Continuation in this business did not accord with the ANL's long term strategy of seeking significant niches in markets where it has a competitive advantage."<sup>140</sup> The Line's management was therefore aware of niche strategy as an alternative to those it was pursuing. By the time of the first statement a Government capital injection had been required to rescue the Line from bankruptcy, and by the time of the second it was experiencing financial difficulties leading to its sale that seem to preclude a late change in trading strategy. Early, the ANL's domestic trading strategy appears to have been driven by determination to seize any shipping opportunity available and by political direction that for fifteen years succeeded. A reason for the ANL's entry to Australia's most important international liner trades was to give the Government a window into their operation to pre-empt the possibility of Australia's exploitation with the approach of containerisation. Thus early selection of generic differentiated niche services for the ANL would have required luck or an unlikely prescience, because formal strategic thinking as

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<sup>137</sup> Michael E Porter *Competitive Strategy*, op. cit. p. 35

<sup>138</sup> Among his suggestions Trace mentions the introduction of a feeder container service between Australia and an Asian hub could have been a successful focus strategy for the ANL. A practical differentiation strategy might have been the use of the Line's local knowledge to provide within Australia an efficient door-to-door distribution service in strategic alliance with an Asian line. Keith Trace, *Privatising the Australian National Line*, op. cit, p. 437

<sup>139</sup> *Australian Transport*, December 1983, p. 2.

<sup>140</sup> The Australian National Line, *Annual Report 199*, p. 3.

exemplified by Porter was some years away.<sup>141</sup> To have entered later would have required further Government faith in financially supporting the struggling ANL. Government policy is an element of the explanatory model, and its decision to sell the Line and quit shipping had the consequences for Australian shipping it had anticipated.

Porter's 'diamond' that analyses the determinants of national competitive advantage perhaps provides other explanations for the ANL's lack of international success that contributed significantly to its failure.<sup>142</sup> These are, he says, factor conditions, demand conditions at home, the availability of supplier and related industries, and how firms are created, organised and managed nationally. Government and chance are not determinants, but variables that can shift competitive advantage. Porter's proposition has relevance to the Line's international trading experience.<sup>143</sup> Australia has good factor endowments with ample human, physical, knowledge and capital resources underpinned by the efficient infrastructure Porter which cites as conducive to international success. However in the case of Australian shipping the high costs of crewing its vessels have weighed against the industry in international competition. For the ANL, capital costs have also posed a problem because of the Government's insistence that it rely on debt financing to fund its expansion. Porter explains the importance of his second determinant by the potential of a sophisticated home demand in allowing firms to create the capability to meet international demand. Australia's reliance on shipping for its commodity exports meant that there was a relatively strong demand in these trades. However as Porter observes, significant segments that

.... are deemed less profitable ... will also be ignored.... Even if such segments are not pre-empted [by foreign competitors] firms are more likely to cede such "less desirable" segments to foreign rivals over time.<sup>144</sup>

The third relationship between Porter's diamond, supporting industries, was shipbuilding and stevedoring. Their effect on the ANL's competitiveness was neutral. The ANL escaped the negative influence of the former by building the vessels for its

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<sup>141</sup> Of the ANL's original seven international trades, the selection of that with Japan as the first was made in 1967 and the last with Singapore and Malaysia in 1975. Porter's *Competitive Strategy* was first published in 1980.

<sup>142</sup> Michael E. Porter, *The Competitive Advantage of Nations*, The Free Press, New York, 1990.

<sup>143</sup> *Ibid.* p. 71

<sup>144</sup> *Ibid.* pp.87,88.

international trades overseas, and in Australia experienced no worse effects than its conference partners. The principal elements of the fourth point on Porter's diamond are the strategy, structure and rivalry of domestic firms. Maintaining that domestic rivalry also helps create strong, world-class firms he writes "Lack of effective domestic rivalry, conversely, means that a nation's service industry will rarely succeed abroad."<sup>145</sup> Also, in discussing the place of a government in establishing competitive advantage in service industries, he comments

A heavy government role in a service industry is usually a reliable indication that a nation will have a modest international presence. Those nations with greatest government involvement in providing services ... are among the weakest nations in terms of international service positions.

Both points have resonance with the ANL that not only had weak domestic rivals after the collapse of the ASO in 1964 but also had Government ownership. As a latecomer it was always going to be difficult for the ANL to break into international trades but, as argued earlier, there was scope for it to perform better by adopting a strategy of focusing on niche markets and differentiation.

### **Private Shipping Post-ANL**

ANL's losses in the international shipping recession and the effects of a domestic recession on Government finances had supplied strong reasons for the Line's sale. However, other sectors of the Australian shipping industry also felt the effects of the weakening Australian economy. By mid-1991 both TNT and its associated company, McIlwraith, were suffering financial problems, principally because of the difficulties of servicing substantial debt incurred for non-shipping ventures when revenue was declining in the economic recession.<sup>146</sup> Among the assets sold by McIlwraith to reduce its debt were its Australian and foreign marine operations.<sup>147</sup>

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<sup>145</sup> Ibid. p. 121.

<sup>146</sup> By mid-1991 TNT's funding deficit had built up to \$300 millions and it announced a loss of \$89.4 millions for the nine months to 31 March. *The SMH*, 30/5/91. McIlwraith booked a \$2.56 million loss to 30/6/91. "Results for the year were adversely affected by the interest holding costs on the Oakbridge investment [a large mining company bought in 1990] acquired in excess of our requirements most of which has now been successfully sold down." McIlwraith McEacharn Limited, *Annual Report 1991* p. 5 McIlwraith also sold at a loss its shareholding in TNT, acquired in 1978 as a defence against takeover. *The SMH*, 30/5/91.

<sup>147</sup> In 1991 McIlwraith sold 60% of its ship management subsidiary to ANL, its major towage operations to Smith and its shareholding in Singapore Shipping. McIlwraith McEacharn Limited *Annual Report 1992*. p.5

These steps, however, failed to solve the company's problems and it was taken over by an American mining company in May 1993.<sup>148</sup> By the early 1990s, TNT had begun a programme to reduce its debt level by disposing of what it regarded as its 'non-core' businesses. One of these was TNT Shipping and Development Limited (formerly Bulkships Limited), which was effected through its public float as Holyman's Limited in April 1994.<sup>149</sup> In its first two years of operation, Holyman earned the praise of financial analysts for its acquisitions, such as the Australian vessels of Union, but especially for the expansion of its foreign ferry businesses.<sup>150</sup> However, by 1997 the company was signalling 'significantly reduced earnings' from its European ferry operations between Britain and Belgium and the profitability and value of the company had slumped.<sup>151</sup> As a consequence, the marine businesses of Holyman, which included its bulk carriers in the Weipa to Gladstone bauxite trade and the former Bass Strait ANL/ Union Coastal Express Line that Holyman had acquired from Union, were taken over by the Lang Corporation in October 1999.<sup>152</sup>

While recession-induced losses hastened the demise of McIlwraith and Holyman, success in diversifying into an industry other than shipping brought about the withdrawal of Howard Smith from marine operations. After its first offshore shipping venture, Smith's marine businesses had continued to prosper and were extended in 1989 with the acquisition of a fleet of small tankers that operated in South Pacific waters.<sup>153</sup> Notwithstanding the worsening domestic recession, in 1990 Smith's "core business sectors generally recorded satisfactory results", contributing to an increase in profits of 23% and payment of double dividends.<sup>154</sup> In 1994, however, Smith departed from these traditional core businesses and diversified into large-scale

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<sup>148</sup> McIlwraith McEacharn Limited, *Annual Report [Final] 1993*, p.2. The company's remaining marine business, its shareholding in ASP Ship Management, was sold in 1998.

<sup>149</sup> The business now included pipelines, owning and chartering ships, bulk commodity and wood chip trading businesses and ferry operations in New York and Britain. *The SMH*, 23/2/94.

<sup>150</sup> "Holyman's performance has been particularly impressive this year with the shares climbing more than 50% from the January 1 mark of \$2.60." *The SMH*, 2/9/96.

<sup>151</sup> Holyman's share price had declined from \$6 in November 1996 to \$1.40 by March 1998, and with it the company's capitalisation from \$ 392.9 to \$76.5 millions. *The SMH*, 20/6/97, *The AFR*, 4/8/97, and 5/3/98.

<sup>152</sup> *The AFR*, 15/10/99.

<sup>153</sup> "Profits from the maritime sector increased steadily, and earnings from the shipping division will be enhanced by the acquisition of Dilmun Navigation which operates small tankers in the South-West Pacific." *The AFR*, 5/9/89.

<sup>154</sup> *The AFR*, 7/9/90.

hardware retailing.<sup>155</sup> Over the ensuing eighteen months, Smith incurred substantial costs in developing its hardware operations, and the sale of its most recently built ship early in 1995 indicated both disaffection with an industry in which it had been a leader for 141 years and a need for capital.<sup>156</sup> Later that year Smith announced it would, "... phase out its shipping operations over an 18 month period as part of a strategy to focus on the other, more profitable core businesses."<sup>157</sup>

Smith's Chief Executive inferred the decision was because profits in shipping were reduced to unattractive levels by the market power of the manufacturers and miners that were shipping's main users that, this thesis argues, became a competitive force of the explanatory framework. He claimed that:

...the injection of significant capital would not improve our relative position in the Australian market which is dominated by cargo owners and leaves little room for independent shipowners.<sup>158</sup>

These changes in Smith's business focus and structure evidently enhanced its market appeal and led to its takeover in July 2001 by a company with which Smith's hardware business had synergy.<sup>159</sup> Thus, in addition to the sale of ANL, three formerly important shipping companies abandoned their shipping operations in the 1990s.

Increased Government road funding policy and domestic recession also ended the operations of the Western Australian government's Stateships.<sup>160</sup> The sealing of the final section of National Route 1 in 1986 had extended Western Australia's all-weather roads system from the borders of South Australia to those of the Northern Territory.<sup>161</sup> With most areas of the state now accessible to road transport, the economic pressures of the early 1990s had by 1994 apparently persuaded the Western Australian government that trucks could efficiently and economically perform the

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<sup>155</sup> Smith paid \$460 millions for the BBC Hardware division of Burns Philp Limited, *The AFR*, 5/5/94.

<sup>156</sup> The 17,000 deadweight tonne self-discharging *Express* was delivered in 1990. Department of Transport, *Australian Shipping 1994* p.12 and *Australian Shipping 1996*, p. 14.

<sup>157</sup> Although shipping contributed \$11.2 millions to Smith's \$162 millions pre-tax profits, management cite "... poor profitability and the constant disruptions on the Australian waterfront " as reasons for the decision. *The SMH*, 30/11/95.

<sup>158</sup> *Ibid.*

<sup>159</sup> Smith was acquired by Wesfarmers Limited, the owners of the Bunnings Hardware chain, for \$2.7 billions. *The SMH*, 13/07/01.

<sup>160</sup> Dillingham had already sold the last remaining vessel of its subsidiary Burke in the late 1980s.

<sup>161</sup> L. Edmonds, *The Vital Link: Main Roads in Western Australia*, University of Western Australia Press, Perth, 1997. p. 319.

distributive functions of shipping.<sup>162</sup> Thus in 1995 the government announced that Stateships, “which had received more than \$160 millions in direct subsidies over the last 10 years”, would cease operations.<sup>163</sup> The charters of three ships recently built for Stateships were therefore terminated early, and with some acrimony the vessels were returned to their lessors in 1996 and subsequently sold.<sup>164</sup> Widespread state industrial disruption followed, and the residual debts of Stateships were expected to continue for many years.<sup>165</sup> However, the extent of the savings achieved from the wind-up of Stateships appears uncertain, as it was necessary almost immediately to arrange continuation of a reduced, but subsidised, service to Darwin and northern ports.<sup>166</sup> After the demise of Stateships, the participation of governments in the shipping industry was reduced to the passenger and cargo service provided by the Bass Strait ferry of the Tasmanian government.<sup>167</sup>

After governments and the main independent private companies decided to exit from the industry, the principal Australian shipping operators still prepared to commit significant amounts of capital and human resources to shipping were those companies whose fleets were integrated with their main business, such as BHP. Although BHP continued to invest in shipping, the structure of its fleet and nature of its operations altered. The change had begun in 1988 with the consolidation of all BHP’s transport operations into a wholly-owned limited company that focused management attention on the entire range of transport operations it used, while broadening the task of marine operations within that range.<sup>168</sup> For example, BHP thereafter sought and obtained the management of more ships owned by other

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<sup>162</sup> The Western Australian Government first called tenders from private companies to manage its fleet but did not pursue the option. *The AFR*, 1/10/93.

<sup>163</sup> Also, Stateships’ losses had increased to \$19 millions annually. *The AFR*, 5/6/95.

<sup>164</sup> The State government had to pay out leasing and residual charges of \$45 millions and incurred a further \$38 millions in liability for superannuation, loans and winding-up costs. *The AFR*, 6/6/95.

<sup>165</sup> Industrial action disrupted the Western Australian waterfront for two weeks. *Ibid.* It was estimated the settlement of Stateships debts would persist until 2020, after costs of \$12 millions in 1997 and an estimated \$10 millions the following year. *The West Australian*, 23/6/97.

<sup>166</sup> The contract to provide a one-vessel service was awarded to Norwest Shipping for three years from November 1995 and subsequently extended. *The DCN*, 23/11/98. By 2001, the state government was considering an expanded two-vessel service with a \$7 millions subsidy. *The West Australian*, 28/09/01.

<sup>167</sup> The number of major Australian trading vessels reduced from 96 to 62 between 1987 and 1997, with its employment further skewed towards dependency on mining and manufacturing companies. Department of Transport and Communications, *Australian Shipping 1987*, p.1, and *Australian Shipping 1997*, p. 4.

<sup>168</sup> D. M. Riley and D. Crisp (ed), *The Iron Ships*, op. cit. p. 122. The company established was BHP Transport Limited.

companies, and built two vessels of types novel to its fleet.<sup>169</sup> However, perhaps the strongest indication of BHP's departure from its former conservatism in shipping was the expansion in 1992 of its trans-Tasman shipping into a regular liner trade, in which it briefly became ANL's rival, competing for any cargo offering as well as carrying its own products and those of associates.<sup>170</sup> In 1992 BHP's shipping historians thus summarised the change that had occurred in the role of the company's fleet:

However it is instructive to consider the complete reversal of roles. The 1950's and 1960's, when almost all steel distribution in Australia was by sea transport, have given way to the 1990's when there is virtually none. Land transport is not, however, limited to rail. Trucking too has proven to offer a cost-effective alternative and BHP transport has four road operation centres which service a national client base.<sup>171</sup>

BHP changed the mix of its fleet to include managed vessels, cargo liners and the specialised ships it had developed in addition to the traditional bulk carriers of its raw materials. However, these changes were not the last or most radical in BHP's marine operations. With its marine operations integrated with its main steel businesses, BHP had long been able to maintain its fleet operationally independent from the problems of other shipping companies and the pressures of Government policies. However, upon its merger with Billiton, BHP contracted the day-to-day management of its fleet to a ship management company.<sup>172</sup> That such a formerly fiercely independent company as BHP now joined other manufacturing and mining companies in appointing a ship manager for the day-to-day management of its fleet confirmed the importance now attained by ship management since its revival by ASP in 1964.<sup>173</sup> With the change in BHP's status, CSR became the only Australian company with a vertically integrated fleet that still managed its own ships rather than transferring the function to a management company.

The part played by Government policy in Australian shipping's explanatory model did not, however, end with the sale of the ANL. The intention of a Federal

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<sup>169</sup> These were, respectively, *Seakap*, a 6,700 deadweight tanker to carry pitch at high temperatures, and *Iron Chieftain*, a self-discharging bulk carrier of 50,000 tonnes. Ibid. 121,127.

<sup>170</sup> Ibid. p. 125. The ANL ceased its Trans-Tasman services in 1996.

<sup>171</sup> Ibid. p. 127.

<sup>172</sup> Upon BHP's withdrawal from management of its own fleet, effective 1 January 2002, the management of its vessels was contracted to the Australian subsidiary of the Scandinavian Teekay Shipping Corporation. *The Daily Commercial News*, 23/7/01.

<sup>173</sup> Earlier, the fusion of certain operations of Caltex and Ampol in the 1990s had been accompanied by the transfer of the management of their combined fleets, firstly to their jointly owned Australian Tankships Pty.Limited, and subsequently to the Teekay Shipping Corporation. With its subsequent

Liberal/National Coalition Government elected in 1996, to end cabotage had been stated by its spokesman Senator Hamer in 1986. Few were surprised, therefore, when soon after its election in 1996 such a Government repealed the several pieces of legislation providing shipping with the financial assistance recommended by the previous Government's reform committees. The Government also appointed a Shipping Reform Group (SRG), whose limited and specific task of "examining options for the removal of cabotage and advising on the need for a second register" left little doubt of the Government's intentions.<sup>174</sup> The SRG report of 1997 contained a package of recommendations that, while proposing conditions for the withdrawal of the restrictions of cabotage, also suggested how its effects could be offset by the establishment of a second register and further labour reforms.<sup>175</sup> The Government did not accept the SRG's proposal. A sharp decline in private commitment to new investment followed the ending of financial assistance, indicating that without financial help to equate Australian capital costs to their foreign competitors' shipping profits were unattractive to potential investors. Meantime, as the size of the Australian fleet diminished with the sale of ANL's vessels and the withdrawal of other owners, a shortage of Australian ships to carry the coastal cargoes available developed. The coastal trades were therefore made increasingly accessible to foreign flag vessels by the Government's issue to them of Single Voyage and Continuing Voyage Permits (SVPs and CVPs).<sup>176</sup>

## **Conclusions**

Of the forces identified in our explanatory framework, the principal ones which impacted on shipping from 1985 onwards were the influence of its new major users and Government policy.

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appointment as manager of BHP's fleet, Teekay thereafter assumed the role for a substantial part of the Australian fleet.

<sup>174</sup> Report to the Minister for Transport and Communications by the Shipping Reform Group, *A Framework for Reform of Australian Shipping: Report by the Shipping Reform Group 1997* p. iii., [www.dot.gov.au/programs/mpol/asreform.htm](http://www.dot.gov.au/programs/mpol/asreform.htm). p. iii.

<sup>175</sup> Ibid. loc.cit. pp. 8-10 Those OECD countries with a second register extend the benefits of ships wearing their national flag to ships that are not necessarily fully manned by nationals, provided the vessels meet certain conditions.

<sup>176</sup> "The proliferation of permits has resulted in an increasing volume of coastal cargo being carried in foreign vessels. One of the criteria for the issue of permits is the non-availability of an Australian ship to carry the cargo for which the permit is sought. The number of Australian ships has declined in recent years and as a consequence the likelihood of an Australian ship being available is diminished." Australian Shipowners Association, Submission by the ASA to the Australian Senate Rural and Regional Affairs and Transport Legislation Committee 2000. p.4 ASA Files, Melbourne, 2000).

The development of the mining and manufacturing increased the demand for shipping services, but principally for the distribution of the bulk cargoes that, respectively, form the outputs and inputs of these industries. The bulk carriers in these captive trades require high capital investment but less intensive shore-based management than general cargo vessels. Their operation is suited to an arrangement whereby the cargo owners, usually companies with extensive international shipping experience, provide the capital investment themselves and use their bargaining strength to contract the vessels' management to Australian companies at base-level rates. The effect is to reduce the profitability of the management company to a level that provides little incentive to remain in shipping. Domination of shipping by these users provided one reason for independent companies such as Smith to quit shipping after 1985.

Government policy in the early post-1985 years built other similar initiatives on Crawford's earlier attempt at industry revitalisation. Their main objective was also to make Australian shipping, especially the financially troubled ANL, competitive internationally and domestically by reducing crews to OECD levels with corresponding reductions in operating costs. The intent of these initiatives was benign but achieved economies insufficient to make Australian shipping cost-competitive internationally or domestically. Thus their primary objective of sustaining the ANL was unsuccessful and the Line was then broken up and sold when it became chronically unprofitable.

Government policies to date thus had the potential to improve shipping's situation but failed because of their narrow focus and lack of consistency that has been thus summarised:

The micro-economic reform process and the parallel waterfront reform process both illustrate the on-again, off-again approach to policy making although the theme has been consistent throughout namely, to make Australian operated ships more competitive. Whilst this is clearly an important element of any comprehensive policy approach, of itself it is not enough, as it is too narrow. Broader views are necessary.<sup>177</sup>

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<sup>177</sup> Barrie Lewarn and Jeff Hawkins, 'The Need for a Comprehensive Shipping Policy,' *Record of Proceedings of the 'Aus-Ship '94' Seminar*, Australian Maritime College, Launceston, 1994, p.9.

*The Australian Shipping Industry*

Government shipping policies after the failure of its attempts at revitalisation were far from benign. Tired of the ANL's continuing losses that arguably resulted from mistakes in past Government policies as much as from the persistent severe international shipping recession blamed by management, the Government sold its Line piecemeal. With its interest in shipping now ended, the Government withdrew the financial assistance intended to equate Australian shipping's competitiveness with foreign competitors that it had provided on the recommendations of its reform initiatives. Thereafter investment fell away, the fleet reduced in size and the consequent shortfall in coastal tonnage was satisfied by issuing permits enabling foreign vessels to occupy an increasing proportion of Australia's coastal trades.

**Table 8.2**  
**Key Shipping Indicators 1990-91 to 1999-2000**

Year	No: VsIs	Investment (Mils)	Permits issued	Mil tonnes carried under Permits
1990-91	79	362	142	1.099
1991-92	78	-26	203	1.321
1992-93	78	440	307	0.896
1993-94	78	69	470	1.406
1994-95	73	506	434	3.482
1995-96	69	-43	421	3.246
1996-97	64	11	572	3.855
1997-98	61	29	n.a	n.a
1998-99	57	80	n.a	n.a
1999-2000	49	-98	895	3.175

Note. Permits include both CVPs and SVPs

Sources: (1) Department of Regional Affairs and Workplace Relations, *Australian Shipping 1997*, Canberra, 1997. (2) Bureau of Transport and Regional Economics, *Australian Sea Freight 199-2000*, Canberra 2002. (3) Australian Shipowners Association, *Submission to the Senate Rural Affairs Committee 2002*, ASA Files, Melbourne.

The contents of Tables 8.2 and 8.3 summarise this further decline of Australian shipping of shipping from its former importance as an element in

Australia's transport system. The decline in investment shown in Table 8.2 began in 1990-91. This was perhaps the beginning of the growing realisation later noted by Smith's Chief Executive that the industry was no longer attractive to private investment. New investment in shipping revived briefly in 1992-93, and again in 1994-95, as orders already placed were completed. However the changes in policy that withdrew financial support in 1996 coupled with the liberal issue of foreign flag permits confirmed the Government's lack of interest in Australian shipping and increased the risks of investment. The industry was therefore now in a classic cycle where under-investment led to shipping shortages that begat the issue of more permits which made investment even more unattractive. This led to the increasing penetration of the coastal trades by foreign ships during the final years covered by this thesis that is illustrated by Table 8.3.

**Table 8.3**  
**Proportion of Coastal Cargo Carried under Permit**

<b>Year</b>	<b>Permits</b>	<b>Mil. Tonnes carried under Permits</b>	<b>Percentage of all Coastal Cargoes</b>
<b>2000-001</b>	895	3.715	7.2
<b>2001-02</b>	693	6.996	13.5
<b>2002-03</b>	997	10.333	19.7
<b>2002-03</b>	1252	12.302	23.3

**Sources:** Department of Transport and Regional Services, (Dotars) *Information Paper 47, 1999-2000, Information Paper 48, 2000-2001, Information Paper 50, 2001-2002, Information Paper 5, Dotars, Canberra, 2002, 2003, 2003, 2005, respectively.*

The reversal of Government policies from the benignity of the reform initiatives to the perhaps hostile policies post 1996 brought about a lack of confidence for investment in shipping. In 2000 the Australian Shipowners' Association argued before a Senate Committee in 2000 that confidence could only be restored by the provision of a positive Government policy for the shipping industry. So far this has not occurred.<sup>178</sup>

<sup>178</sup> ASA considered "The reasons for the reduction in investment are evident from an analysis of Governments' role in the reform process and in the shipping industry. In particular the inability of investors to be confident of a positive policy environment in Australia is a major factor." Australian Shipowners Association, Submission to the Australian Senate Rural and Regional Affairs and Transport Legislation Committee 2000, p. 4. ASA Files, Melbourne, 2000.

## CHAPTER NINE: CONSPECTUS

Over the last sixty years, the Australian shipping industry lost its role as an important provider of passenger and general cargo services and, in a lesser role, has become vertically integrated with the mining and manufacturing industries that now dominate the ownership and use of the Australian flag merchant fleet. Several authors have taken as their subject selective aspects of these changes but none to date has provided a comprehensive analysis of the post-war transformation of Australian shipping. This thesis advances our knowledge of the industry by addressing this *lacuna*. It argues that, historically, the industry was weakened by protection and thus unable to resist the effects of six competitive forces that developed post-war and undermined shipping's profitability. The thesis argues this theme through an explanatory framework developed specifically for the task.

In its analysis of the transformation of Australian shipping, this thesis draws on a number of primary sources not previously available to researchers. These include Cabinet papers and papers of Government Departments that have been released under the provisions of the *Commonwealth Archives Act 1983*. The records of maritime unions and the ASOF and CSOA deposited at the ANUs N.G. Butlin Institute (NGB) has yielded new insights into the activities of these organisations. The records of companies like Adelaide and McIlwraith are also accessible now these companies have left shipping, with Adelaide's records deposited at the NGB, and McIlwraith's at the Australian National Maritime Museum (ANMM). Primary source material previously used in a context different to the purpose of this thesis has also been researched and deployed in a different context to its original purpose. For instance the AUSN's company papers on deposit at Sydney's Mitchell Library were used by McKellar to compile his history of that company.<sup>1</sup> But this source has also provided much material applicable to the industry-level analysis of this thesis. The following synopsis provides not only a summation of the thesis and the results of its analysis, but also validation of its claims to originality.

Before the ANL's establishment, the Australian shipping industry had created for itself a structure virtually free from rivalry between constituents and it therefore lacked the competitive edge that induces efficiency. For fifteen years Government support made the ANL a strong rival to the independent private segment and it soon

became the industry's dominant player. Publicly owned, without a strong domestic rival, and protected from international competition by long-term effects of the *Navigation Act*, the ANL also lacked strong incentives to achieve high profits. This encouraged the Government to direct the ANL into several coastal and international trades apparently selected more for their political significance than their prospects of generating profits. While these new trades did not initially lead to annual losses, they did seriously undermine the ANL's profits and restricted its capacity to accumulate reserves. The Line also borrowed heavily, especially in foreign currency, to equip itself for the several international liner trades over which its resources were thinly spread. This increased the ANL's financial vulnerability to the severe international shipping recession that developed from 1973 and resulting decline in revenue. The ANL would have been better equipped to withstand the effects of this international recession if it not relied so heavily on borrowings to fund expansion. However the long-term effects of protection from international competition at home and poor decision-making in respect of its overseas trades contributed more to the ANL's demise than the short-term effects of global recession.

The reasons for the demise of the independent segment of the private sector are more clear-cut than those that caused the ANL's demise. In 1945 the dominant independent companies were inherently weakened by lack of rivalry and so structurally insecure by 1961 that their cartel collapsed from the ANL's rivalry and other competitive forces. The independent companies of Holyman, Smith, McIlwraith and TNT outlived that earlier period and survived by innovation, diversification and offshore operations, while Stateships survived because its owner, the Western Australian government, continued to bear its losses. But McIlwraith and TNT also borrowed heavily to expand non-shipping interests and succumbed to the financial effects of the domestic recession that began in the late in 1980s. Smith's attraction as a takeover target was because it had shed its shipping and diversified; Stateships' services were ended by a state government short of funds during domestic recession and no longer willing to support its enterprise. Thus although the Government's early post-war shipping policy was one of the forces that undermined industry profits and led to the departure from the industry of many prominent firms, the subsequent demise of these companies was due to several more proximate causes. On the other

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<sup>1</sup> N.L. McKellar, *Derby Round to Burketown, op. cit.*

hand, while the same earlier policies had also affected the ANL's profitability, its demise is attributable to the effects of recent changes in the Government's specific policies towards its Line. The ANL was the last major Australian operator of general cargo services and therefore was not completely dependent on the mining and manufacturing industries. Thus a secondary effect of the ANL's sale was to increase domination of Australian shipping by these users, a conclusion the changes in the fleet's composition bears out. In 1985 the major trading fleet comprised 100 vessels of which 68 were dry bulk carriers or tankers; by 2000 the fleet had declined to 54 vessels of which 43 (75%) were in the bulk trades.<sup>2</sup> Not only Australian vessels controlled by the mining and manufacturing sectors carried their cargoes. By 2000 dry and liquid bulk cargoes formed 89% of all cargo tonnage carried under Single Voyage and Continuing Voyage Permits (SVP's and CVP's). This is doubly significant because while it confirms the dominance of shipping by these sectors, it also reflects their reluctance to use Australian vessels when an alternative was available.<sup>3</sup> Neither foretells the development of a viable, independent Australian shipping industry.

This thesis argues all six forces identified in the explanatory framework contributed to the post-war decline of an industry with long-term structural weaknesses, but the effects of some were more important than the others. Restriction of shipbuilding limited private shipping to the use of obsolete vessels, while labour restrictions caused crew shortages and disputes that frequently delayed ships. These hampered the industry's ability to compete effectively and depressed profits.<sup>4</sup> With the introduction of new technology short term costs increased as unions delayed ships in an attempt to gain pension schemes and various termination payments in compensation for loss of employment. Profits were reduced while these short-term costs were absorbed and the increased capital investment recouped. In the long-term technology was an important and positive force that increased shipping's ability to compete and survive. Road and rail transport are inherently more suited to general

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<sup>2</sup> Table 7.5 and Bureau of transport and Regional Economics, *Australian Sea Freight 1999-2000*, pp.37-40

<sup>3</sup> Bureau of Transport and Regional Economics, *Australian Sea Freight 1999-2000*, Information Paper 47, Canberra, 2002, p. 21.

<sup>4</sup> As recently as 1995, Smith's Managing Director cited industrial disputation as a reason for the company withdrawing from shipping: "The significant increase in industrial disruption of our maritime operations ... during the last 14 months ... makes the industry look even less attractive as an investment option." *The AFR*, 30/11/95.

cargo than shipping and air travel is more suited to passenger transport. When the deficiencies of inadequate roads and differences in rail gauges between states were eliminated, land transport inevitably won most of shipping's general cargoes, and depressing profits and leading to the demise of several companies. Shipping's users were also a strong force in the industry's transformation. The loss of its general cargo trades made shipping heavily dependent on the manufacturing and mining industries whose bargaining strengths drove down profits in the coastal bulk trades.

The intensity of these forces and their incidence varied throughout the post-war period. Restrictions on ship supply were lifted in the mid-1970s and labour relations were vastly improved after 1985 by the work of Crawford on revitalisation. Introduction of new technology and its effects on profits peaked over a relatively short period from about 1960 to 1985 and, while competition from substitutes was a powerful force, they had captured most mainland trades by the 1970s. Shipping's new users rose to dominance between the mid-1960s and 1980s and by then ANL's condition precluded its further rivalry. By contrast, throughout the post-war period the Government's influence on the industry's profitability and decline was persistent, strong and pervasive. It was diffused through the competitive forces of factor regulation, the ANL's sale and rivalry and through financial assistance to shipping's substitutes, as well as through the recent easing of restrictions on the entry of foreign vessels to coastal trades.<sup>5</sup> Of the forces identified in the explanatory framework, Government thus must be considered the major force which explains the poor performance and resulting transformation of Australian shipping.

The question must be asked as to whether Australian shipping could have done more to save itself. Was a substantial decline in its market share inevitable, or could the loss of its trades have been minimised if owners had adopted more proactive strategies, including best practice technology? Could shipping, including the ANL, have retained a share of interstate trade if Government policies, the strongest of the six forces, had been different? The course of shipping's future development would

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<sup>5</sup> The competitiveness of Australian vessels is affected by ten pieces of legislation to which they are subject, but from which foreign flag vessels in the coastal trade are exempt. The Australian Shipowners' Association has identified these to the Australian Senate as: *Customs Act 1901, Navigation Act 1912, Migration Act 1958, Workplace Relations Act 1996, Seafarers, Rehabilitation and Compensation Act 1992, Occupational Health and Safety (Maritime Industry) Act 1993, Customs Tariff Act 1995, Shipping Registration Act 1981, Income Tax Assessment Act 1936, Product Stewardship (Oil) Act 2000*. Submission by ASA to the Australian Senate Rural and Regional Affairs and Transport Committee, 2000.

certainly have been different had the private companies that dominated the industry bought the Government's fleet in 1956. Whether these companies could then have developed a strategy that would have enabled them to minimise the loss of cargoes to their substitutes can never be known. But arguably, unless the private owners made the purchase, they could not survive the rivalry of a Government Line. This was a view held by, among others, Adelaide's Chairman, who was also ASO's Chair.<sup>6</sup> Whether a more proactive, technology-based strategy would have succeeded requires a review of shipping's post-war circumstances.

Prior to 1939, poor infrastructure and legislation restricted the ability of air, rail, and road to compete for those of shipping's cargoes to which they were ideally suited, for example air for passengers and road for light general cargo. Post-war, Government policies of continuing the upgrade of roads and airports it had started in wartime and delivering them to shipping's substitutes at less than cost, combined with technical advances and legislative changes to greatly improve the competitiveness of shipping's substitutes. On the other hand, shipping's own post-war competitiveness declined because of restrictions on its access to labour and to modern tonnage that affected all operators except the Government's Line. For the independent private sector the effects were compounded by its structural weakness and its adherence to old technology and outmoded business practices that developed over years of protection from competition and rivalry. There can therefore be little doubt that shipping would lose trade to its substitutes, especially its passengers and much of its general cargo.

Chapter Five argues the independent companies' could have perhaps have improved their position during the first five post-war years by self-help strategies that would have given them a better standing with the Government.<sup>7</sup> Access to new vessels was liberalised during the next five years, but these firms did not react to the opportunity to renew their fleets because they were negotiating to buy the Government fleet and would have needed their capital for this purpose if their negotiations had been successful. Thereafter the independent owners followed the ANL and BHP in modernising their fleets and freighting arrangements. Still, by 1961 they had lost so much of their mainland cargo trades to land transport their cartel collapsed. With the removal of the earlier restraints there is no evidence that any

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<sup>6</sup> Chapter Six, p.123, fn. 51.

private or Government owner was resistant to the introduction of the latest technical developments. Indeed they embraced containerisation early. Its success when introduced to the trade from Queensland to Western Australia demonstrated that modern, efficient vessels could compete with land transport on some longer routes. But this trade fell victim to subsidised rail services, as did the ANL's mainland general cargo trades over the next ten years. It was therefore inevitable that Australian shipping would lose market share to substitutes, but it could have done more to minimise the effects, although in the case of the independent owners other circumstances intervened to delay their response past the time when it might have been effective. Arguably this did not affect the outcome, because even the ANL, with few restraints financial or otherwise and a pacesetter in modern, technically advanced ships and modern freighting practices, also ultimately lost its contestable trades to land transport. The industry, especially the independent owners, should have undertaken proactive steps earlier. Whether these would have been successful in retaining some of its general cargo trades for shipping can never be determined, but the probability is that they would not.

The strategies by which the ANL might have attained better profitability differed from those open to the private companies. The Line's corporate profitability was reduced rather than destroyed by the ill-chosen trades into which it was initially directed. But when most of its trades made losses during the recession, the Line could no longer absorb the effects of operations such as the Japanese ore trades and some international liner trades, particularly the European, and it became chronically unprofitable. There was no need for its entry to unprofitable domestic trades and its participation in the Japanese ore trades should have been preceded by long-term charters, or not undertaken at all. The Line's coastal liner trades were victim to the same competition from substitutes as those of the independent owners, but a better strategy for the international liner services could have been adopted. Spreading the ANL's slender resources over so many trades prevented it from providing frequent services to strengthen the support of its clients. ANL's management strongly supported the Conferences in which it participated but these too reduced its ability to individualise services. The adoption of one or more of Porter's generic strategies, such as a focus on niche trades with differentiation of services, might have improved

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<sup>7</sup> Chapter Five, p. 111.

the Line's financial performance had the existence and potential of this alternative been realised earlier. International and domestic recessions can therefore be acknowledged only as the immediate causes that pulled down the ANL's pre-existing weak strategic trading structure and finance policies.

The post-war policies of successive Australian Government's were both long-term and identifiable by legislation, and *ad hoc* such as the revitalisation initiatives. Whether long-term or *ad hoc* they were not intended to be destructive. At worst, almost all post-war Governments adopted policies they believed to be shipping-neutral; at best the others, like the reform initiatives, were intended to help the industry. The adverse effects of policies were therefore unintentional rather than deliberate. Nevertheless, the effects of Government influence on shipping's transition and decline peaked during the years it participated in the industry through the ANL when it was most active in policy-making.

Perceived inadequacies of these policies have attracted comment from several sources. Both Stubbs and King suggest Australia needs a National Transport Policy; others have argued that the absence of a shipping-specific policy is because Australia is not marine-orientated and lack of voter interest translates into Government disinterest.<sup>8</sup> The need for a shipping policy was also the focus of a 1994 seminar at the Australian Maritime College.<sup>9</sup> More recently in 2000 the ASA has blamed the ultimate stages of shipping's decline on lack of policy direction.

The Australian shipping industry has contracted as a result of a lack of policy direction necessary to encourage investment in high-value capital equipment and to encourage the recruitment and training of young Australians to pursue careers in the seagoing sector of the shipping industry. The consequence for Australia is that increasingly, foreign shipping is being used *in Australia's interstate transport industry* [sic].<sup>10</sup>

It is as unrealistic today as at the time of Crawford to believe that Australian shipping could be cost-competitive with subsidised foreign shipping in the coastal trades. There is therefore no apparent reason why Australian shipping should not decline to

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<sup>8</sup> A further suggestion is "Australia, furthermore lacks a maritime tradition ...if anything we are a nation that has turned inwards to revere the settlers ... a nation of mountain crossers, desert wanderers, searchers for the inland sea, sailors of the inland waterways." Brian Fitzpatrick & Rowan Cahill, *The Seamen's Union of Australia*, op. cit. p. 161.

<sup>9</sup> The Australian Maritime College, *In Search of a Comprehensive Australian Shipping Policy*, Record of Proceedings, AMC, 1994.

<sup>10</sup> ASA Submission to the Senate, op. cit. p.2.

extinction unless Government policy determines the industry is necessary and places it on an equal footing with its subsidised foreign competitors.

This thesis has provided a systematic analysis of Australian shipping's post-war transformation and has therefore increased our understanding and knowledge of this industry. However, the thesis has limitations. It cannot claim finality because under the terms of *Commonwealth Archives Act 1983*, Government records, including Cabinet papers, Departmental files and the ANL's own records, are not accessible until they are over 30 years old, and even then they are only available if they are not considered to contain 'exempt information.'<sup>11</sup> As these records are gradually released, they could provide more insight into the thinking behind the Government's policies, especially those relating to its own Line. For example, the ANL occupied a dominant position in Australian shipping and, as explained in this thesis, its demise and sale had important consequences for the industry. The Line's management, and the reasons for its poor strategies, will not be fully understood until the documents relating to them are made public. The impact of the international shipping recession, ANL's bankruptcy, changes in Government policies towards its Line and, finally, its sale also all occurred within the 30 year period. The records relating to these events might also cast further light on the ANL's performance. The release of documents by the National Archives thus provides a promising avenue for further research into post-war Australian shipping.

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<sup>11</sup> National Archives *Fact Sheet 46*, lists 15 exemption categories.

APPENDIX ONE

Distribution of the Australian Merchant Fleet by Owner in 1945

TRADE/OWNER	NO: VSLS	GROSS TONS
<b>Interstate (ASOF)</b>		
Adelaide S.S Co	17	62,546
A.U.S.N.	9	22,922
Howard Smith	10	31,813
Huddart Parker	8	36,854
McIlwraith	11	36,235.
Melbne S.S.Co	5	22,647
Jas. Paterson	1	3,351
Union	9	42,797
<b>Totals</b>	<b>70 (38.88%)</b>	<b>259,165 (49.68%)</b>
<b>Interstate (Other)</b>		
W.Holyman	6	4,142
H.C.Sleigh	2	4,471
Interstate (ISO)	1	3,362
John Burke (ISO)	3	2,512
James Patrick ((ISO)	3	5,157
Miller (ISO)	4	9,082
Minor Private Owners	18	38,844
<b>Totals</b>	<b>37 (20.56%)</b>	<b>67,570 (12.97%)</b>
<b>Intrastate Trades</b>		
N.S.C.S	12	9,335
I.S.N.C	3	1,810
H.R.S.N.C	3	3,871
Coast S/Ships	9	8,454
W.A.S.S.S	2	5,085
'60 Milers'	12	13,815
<b>Totals</b>	<b>41 (22.78%)</b>	<b>42,370 (8.12%)</b>
<b>Integrated Shipping</b>		
BHP Co. Ltd	8	32,604
CSR Ltd.	3	12,105
Burns Philp	8	38,074
Brit. Phosphate	2	13,661
<b>Totals</b>	<b>21 (11.67%)</b>	<b>96,444 (18.48%)</b>
<b>Government</b>	<b>11 (6.11%)</b>	<b>56,084 (10.75%)</b>
<b>TOTALS</b>	<b>180 (100.0%)</b>	<b>521,633 (100.0%)</b>

Source: Derived from Appendix II, Pemberton op. cit. Note: Figures in parentheses are percentage of whole fleet represented by vessels and their GRT's in that section.

**APPENDIX TWO**

**Annual Net Profits of Australian ASO Companies Declared: Years 1951-1964**

Year	Adelaide	Smith	Parker	McIlwraith	Melbourne
	Net Profit (\$'s)	Net Profit (\$'s)	Net Profit (\$'s)	Net Profit (\$'s)	Net Profit (\$'s)
1951	232,536	590,374	421,008	174,422	63,058
1952	232,546	948,282	366,342	301,250	75,096
1953	255,774	826,228	601,016	270,732	95,856
1953-54	279,030	1,142,528	617,550	381,792	123,182
1955	279,036	942,766	451,170	441,084	94,542
1956	278,312	682,446	370,544	322,212	77,488
1957	279,038	744,496	374,098	375,730	110,420
1958	325,554	510,814	364,262	356,030	119,308
1959	290,072	541,016	504,442	290,072	51,996
1960	615,818	407,442	254,200**	232,020	103,072
1961	522,972	624,718		244,666	**
1962	600,550	778,528		234,200	-
1963	720,878	1,350,302		373,020	
19-64	842,790	2,217,730		410,704/8%	

\*\* Melbourne and Parker ceased to report after takeover in 1960

**Sources:** Derived from the financial pages of *The Age* and *The SMH* for relevant years.

The ASO companies did not have the same financial years; Smith and Parker reported annually on 31 December, Adelaide, McIlwraith and Melbourne on 30 June. For consistency and to simplify presentation Appendix Two lists the years in which profits were declared, which were the same. In the case of Adelaide, McIlwraith and Melbourne the years do not therefore related to the whole period in which they were earned.

The Table shows that the Australian companies of the ASO cartel were profitable in the post-war years between 1945 and 1964. Because the Annual Reports do not apportion profits between the several activities of these companies no conclusion as to the profitability of their shipping can be deduced from their annual

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results. Other sources cited in the thesis demonstrate that shipping was generally unprofitable during these years and thus declared profits must have derived substantially from non-shipping operations. The figures of Appendix Two do, however, confirm the conservatism of managements that accepted the under-mining of overall profitability by shipping over such a long period.

**APPENDIX THREE**  
**Australian Shipping: Benefit or Burden. ?**

Having considered the arguments usually advanced for the support by nations of their shipping industries, one commentator delivered the following opinion.

“Shipping is not necessary for promoting overseas trade; it is not an infant industry; investment in it has no special effect on the Balance of Payments; as a capital intensive industry it provides little employment; there is no general case for protecting shipping for defence reasons; and as a way of buying national prestige, it can become very expensive.”<sup>1</sup>

This, however, is a general statement which might not apply to all countries regardless of such individual characteristics as their geographical location and position in the pattern of world trade; moreover, the pragmatism of governments charged with the responsibility for national well-being might require a different view.

When national security or defence is advanced as a reason for a country to maintain its shipping industry, it is usually implied that the fleet could be converted to military purposes during wartime. Australia’s fleet, however, mainly comprises bulk ships or specialised vessels that would be unsuitable for conversion, and in any case are required for the purposes for which they were built. But the national security argument for an Australian fleet is economic rather than military. For in the event of a large-scale foreign war, the charter rates for shipping increase and its availability decreases. The effect would be compounded for Australia because of its remoteness from the main ship-owning centres and heightened if it was itself involved in a conflict and needed to expand production of war materials. These would be circumstances very similar to those of World War II when the Government found it necessary again to become a shipowner. The employment generated by the Australian shipping industry is not confined to the seamen in its ships. For shipping has linkages that have been estimated as providing employment over and above ships’ crews for 80,000 people who contribute \$14,000 millions annually to the economy, some 3.2% of GDP.<sup>2</sup> Many of these workers would find employment elsewhere if Australian

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<sup>1</sup> Goss, Professor R. “Internationalism, Protectionism and Interventionism in Shipping.” Hawkins J (ed) In Search of a Comprehensive Australian Shipping Policy ( Proceedings of the ‘Aus-Ship 94’ Seminar Australian Maritime College, Launceston) p. 30

<sup>2</sup> “The Important Economic Contribution of the Australian Maritime Industry” (Australian Maritime Network, Pamphlet, Undated). The pamphlet links to the Australian Maritime Industry 36 sectors whose workers owe part of their employment to the industry.

shipping declined to extinction. However those professions requiring marine training such as marine educators, pilots, and surveyors might have to be filled from overseas in the absence of a shipping industry to provide that training.

Several studies prior to the sale of the ANL concluded that Australian shipping made a positive although limited contribution to the country's Balance of Payments. For instance a study by the Bureau of Transport and Communications Economics (BTCE) concluded that Australian shipping's earnings valued at world prices made an estimated contribution to the 1986-87 Balance of Payments Current Account of \$576 millions.<sup>3</sup> The study continued,

“A better approach might be to ask how the external account would be affected if the fleet were sold because the answer to this question would show the opportunity cost of having a national fleet.”<sup>4</sup>

The BTCE estimated the value of Australian owned trading vessels in 1986-87 at approximately \$798 millions that, if realized and used to purchase an annuity in New York or London would generate an annual contribution to the external account of about \$136 millions. This, the study concluded, ‘would leave a net contribution by Australian shipping to the external [BOP] account of \$440 millions in 1986-87.’<sup>5</sup> Another study using a different methodology concluded

“For every additional \$1 million earned by a competitive Australian shipping industry, the services component of the current account deficit may be reduced by \$0.41 million (1986/87 dollars) and the net partial contribution to the current account on services and income would approximate \$0.31 millions (1986/87 dollars).”<sup>6</sup>

It therefore appears that in international trades Australia's shipping made a net contribution to Australia's Balance of Payments. There are, however, two other financial aspects of the decline, possibly eventually to extinction, of Australian shipping that have apparently so far not been quantified. These are the foreign exchange effects of the payment in foreign currency for the charters of increasing numbers of foreign flag vessels needed to take the place of Australian vessels. There is also the effect of the diversion overseas of taxation, company and personal, from Australian tax revenue to that of foreign countries and the potential cost of short-term

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<sup>3</sup> Australian Shipping and the Balance of Payments ( Occasional Paper 99, undated. BTCE, AGPS, Canberra) p.25

<sup>4</sup> Ibid

<sup>5</sup> Ibid p.26

<sup>6</sup> Apelbaum, J Impact of Increased Australian Flag Participation on Australia's Balance of Payments”

unemployment. The social costs of shipping are also minimal because it is energy-efficient, of the major transport modes uses the least energy, emits the second lowest amounts of carbon dioxide and has few deaths from operational causes.<sup>7</sup>

Against these benefits of a continuing Australian shipping industry must firstly be set the macro-economic savings if coastal sea transport were performed at international freight rates, and therefore presumably by cheaper foreign ships. These were estimated by the IAC at between \$250 and \$550 millions annually in 1986-87 dollars.<sup>8</sup> But there are other factors less clearly quantifiable that must also be taken into account. For instance it would be difficult to ascribe the cost of any perceived risk to national security if the Australian shipping industry became extinct and the economic effect on other parts of the economy if Australian shipping would also be hard to assess, especially in the absence of a Government national transport policy.<sup>9</sup>

In the case of Australian shipping there are therefore a number of positive factors some, like its foreign exchange earnings and its value as an employer and taxpayer that are quantifiable, and others like Australia's remoteness and vulnerability to shortage of shipping in times of international crisis that are not. When deciding whether shipping is to be provided with the Government support needed to escape from its present circumstance these need to be weighed against the arguments against providing national support for shipping identified by Goss. As this requires a value judgement by Government, that will perhaps be made as apparently so often in the past on the principle that "the business of government is government not business."

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(ANMA, Melbourne, 1989) p.1 At the time of these studies the use of foreign ships with Single or Continuing Voyage Permits was infrequent and the effect was therefore not assessed by either.

<sup>7</sup> For instance road transport uses 27%, rail 1.3 %, air 1.8% and sea 0.7% of Australia's total energy consumption with road transport consuming 86.2% of transport energy consumed. Again road emits 77%, Air 12%, rail 5% and sea 5% of transport carbon dioxide emissions. The Benefits of Having an Australian Shipping Industry. ( Australian Shipowners' Assn., August 1994), pp. 8,9

<sup>8</sup> The Industries Assistance Commission Report No. 415 Coastal Shipping, Part A: Summary and Findings. (AGPS, Canberra, 1988) p. xxv.

<sup>9</sup> According to one Australian rail transport operator "The Government changes to shipping rules [increased issue of SVP's] have cost us 35 jobs in lost freight to international shipping companies ... There are brewers on these East coast who are now sending their beer by sea where once it went by rail, to Perth. Now you haven't seen a drop in the price of beer in Perth because of cheaper freight costs." "End of the Line" SMH 20/07/02

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