



How Other Countries Support Their Domestic Shipping Industries

Most of Australia's key Defence Allies and Trading Partners retain some form of cabotage (reservation of domestic shipping for ships flying the flag of that nation; that is, provision of preferential treatment for national flag ships in the coastal trade).

USA

US cabotage is contained in the *US Merchant Marine Act 1920* (commonly referred to as the Jones Act) which reserves to US-flagged vessels (which must also be US citizen-crewed and constructed in the US) the right to transport cargo and passengers between US ports. US cabotage policy is bi-partisan and has been confirmed as central to US Defence and maritime security by successive Presidents from both major parties over the past 2 centuries.

CANADA

Canadian cabotage is contained in the Canadian Coasting Trade Act. Licences may be issued to foreign ships where no Canadian ship is available or suitable – but under strict conditions requiring a proper market evaluation of the application for a license. Importantly the Act requires foreign ship crew members, engaged on ships under a licence, to possess a work permit to operate in the Canadian coastal trade. To obtain a work permit requires a Labour Market Impact Assessment (LMIA) to support the work permit application. If there are

Canadian seafarers available to fill the roles, the assessment (and hence the work permit) might be refused. This supports Canadian cabotage by limiting the number of licenses issued to foreign ships. Foreign flag vessels operating under waiver carried about 2.7% of all coasting trade traffic in 2006 (indicating very few licenses are issued).

INDONESIA

Cabotage principles were implemented by the Indonesian government when the domestic shipping industry almost collapsed in the period up to 2005, as a result of foreign vessels engaging in coastal sea transportation. Indonesia's shipping and offshore marine industry underwent major changes since the introduction of a comprehensive Maritime Law No 17 of 2008, which aimed at providing business opportunities and greater market share to Indonesian companies. Article 8 of Maritime Law No 17 of 2008 sets out the following principles:

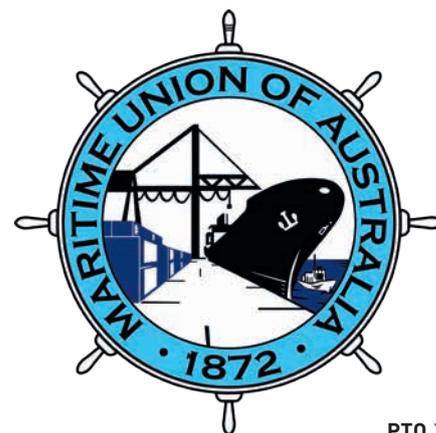
- Activities relating to domestic sea transportation must be performed by an Indonesian Sea Carriage Company using an Indonesian-flagged vessel manned by Indonesian crews; and
- Non-Indonesian sea flagged vessels are prohibited from carrying passengers and/or goods between islands or ports in Indonesian waters.

In 2011 some exemptions were provided for certain off-shore oil and gas vessels (Indonesia did not have sufficient off-shore

ships on its register). Exemptions for oil and gas survey vessels, off-shore constructions vessels, dredging, salvaging and underwater works expired in December 2014. In December 2015, current exemptions for jack-ups, semi-submersibles, deep-water drill ships, tender-assist and swamp bridge rigs will also expire. Many of these vessels are now being built in Indonesia. There are now 14,000 ships under Indonesian cabotage.

CHINA

China maintains a domestic maritime cabotage policy through its Water Transport Management and Registration Regulations of May 1987. There has been some relaxation of the provisions on a port-by-port basis, allowing Chinese-owned but foreign-flagged vessels to carry container cargo between specified domestic ports.



JAPAN

Maintains a system of maritime cabotage given effect by Article 3 of the *Ships Act*. It allows ships from a limited number of foreign countries to operate in the coastal trade, as part of reciprocal trade arrangements when granted a permit from the Ministry of Land, Infrastructure, Transport and Tourism.

BRAZIL

Brazilian Law 9.432/97 ("*Brazilian Shipping Act*") created the Brazilian Especial Register (REB) and several incentives for the Brazilian flag/BSC and shipbuilding sector. It also created restrictions on foreign owners and vessels to operate in cabotage, off-shore support navigation, port navigation and also inland/river navigation. Only Brazilian shipping companies are allowed to charter foreign vessels into Brazilian jurisdictional waters. Brazilian-flag vessels also have priority to operate in such navigation

activities. In essence the law requires foreign carriers engaged in cabotage trades to have a minimum of one domestic flagged vessel in their fleet.

INDIA

India maintains a system of maritime cabotage under its *Merchant Shipping Act*. In 2005 the rules were partially relaxed to allow foreign carriers to engage in intra-port container movements between some ports, aimed at inducing feeder competition. Foreign companies can purchase Indian shipping companies to engage in trade and can charter Indian-flagged vessels to undertake coastal trade. A freight tax is imposed on foreign ships engaged in inter-port trade.

EUROPEAN UNION

An EU-flag ship is eligible to participate in the cabotage trades of any other EU state.

Within Europe, each country may impose crew nationality requirements, vessel ownership requirements and fiscal requirements on owners. In addition, states that retain some restriction on access for foreign vessels usually maintain a waiver system based on the condition of non-availability or unsuitability of a national or EU-flag ship. The widening of cabotage has enabled more than shuttle services to develop, so operators can optimise their offerings to suit opportunities. This liberalisation enlarged the region in which 'short sea' services could operate and gave European vessel operators the longer routes which enabled 'short sea' to compete effectively with land-based transport.

Figure 1 below shows Australian cabotage is already among the most liberal in the world. Further erosion will put Australia completely out-of-step with its trading partners and Defence allies.

Figure 1: Range of Cabotage Regimes in Selected Countries

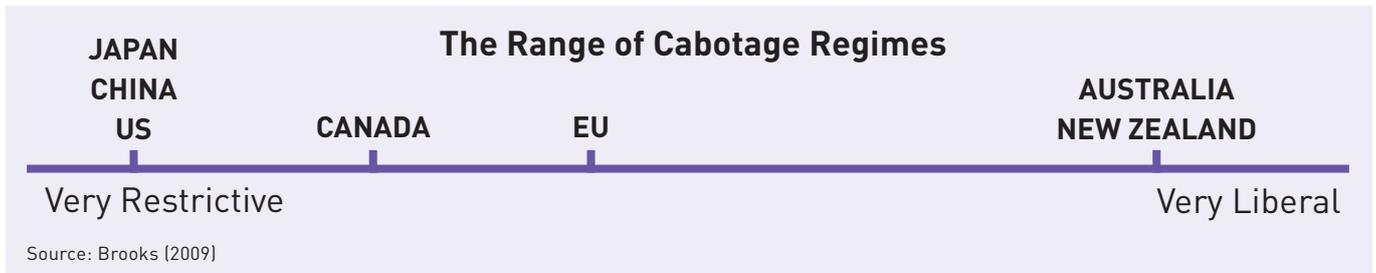


Figure 2: Diagrammatic representation of selected cabotage regimes by market boundaries

