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'You Couldn't Give It Away': Privatising the Australian National Line

Keith Trace

IN early 1991 the Australian Commonwealth government declared its intention to privatise the Australian National Line (ANL). Set up in 1956 to take over the business of the loss-making Australian Shipping Board, ANL was profitable in its early years, when it concentrated on coastal operations. But its financial position deteriorated following its entry into the highly competitive and cyclical overseas liner and bulk trades. During the 1980s the government kept ANL afloat by injecting further equity capital. The government's recent disenchantment stems from the Line's failure to achieve the goals set in its ambitious 1989/92 corporate plan.

ANL's Performance under Government Ownership

Between 1957 and 1969 ANL consistently returned operating profits of about $4.5m and after-tax profits of around A$2.3m, paying a regular 6 per cent dividend on its capital of $35.85m.[1] Thereafter its financial performance deteriorated, its operating losses amounting to around $10m in 1975 and 1976. The Line blamed the Commonwealth government's decision to hold down the level of coastal freight rates in an era of rising costs; the downturn of cargo volume in both coastal and overseas trades during the recession of 1974-75; the high level of industrial disputation on the Australian waterfront; and a rise in the Line's gearing ratio following the financing of ANL's overseas expansion by loan funds rather than equity capital. The Line's gearing ratio (the ratio of loans outstanding to funds employed) rose from 1.06:1 in 1970 to 4.3:1 in 1975 and to 13.58:1 in 1977.

ANL's financial situation further deteriorated in the early 1980s. By 1983 it was technically bankrupt, accumulated losses exceeding the Line's capital base, forcing the Commonwealth government to mount a rescue operation. The Australian Shipping Commission Amendment Act 1983 converted $60m of loan funds to equity and provided $30m of additional equity; appointed a new Chairman, Captain William Bolitho, while strengthening and rationalising the Line's management; and reduced government involvement in ANL affairs, giving management greater autonomy in the setting of freight rates, contractual arrangements and staffing.

[1] By 1966 accrued dividend payments to the Commonwealth government amounted to $38.7m.

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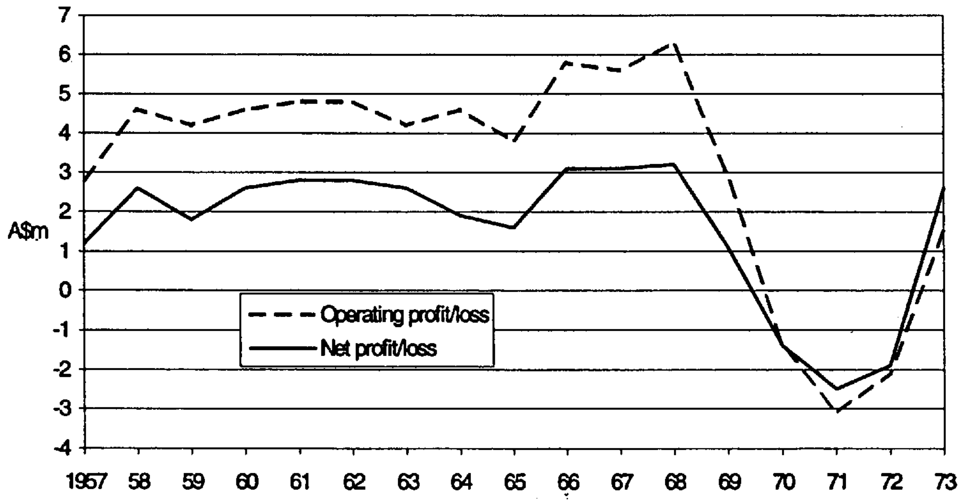
Figure 1

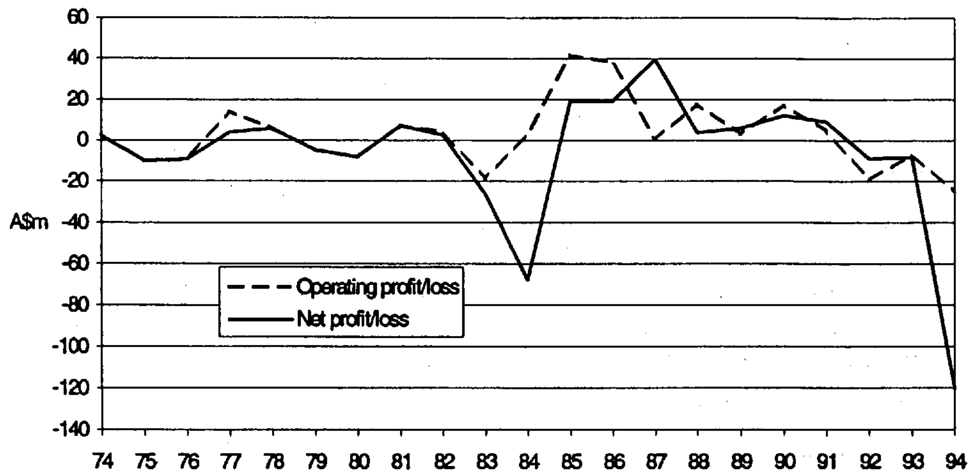
ANL's operating and net profit/loss, 1957-73



Source: ANL Annual Reports

Figure 2

ANL's operating and net profit/loss, 1974-94



Source: ANL Annual Reports

A 1984 review of ANL led to the closure of loss-making services, including those to North America, as well as the sale of uneconomic vessels and terminals. Fleet size was reduced from 33 vessels to 27. While returning to operating profitability ($3.3m) in 1984, ANL reported a record net loss of $67.8m brought about by extraordinary write-downs arising from the inadequacy of past depreciation policies,[2] by anticipated losses in respect of vessels to be sold in the 1984/85 financial year, and by losses in foreign-exchange transactions. Accumulated losses now exceeded capital and reserves by $3.7m. Once again ANL was technically bankrupt; the Commonwealth government bailed out the Line with an additional capital injection of $70.5m.[3]

In 1988 the ANL (Conversion into Public Company) Bill provided for the conversion of the Commission's capital ($196m) into one-dollar shares, all of which were to be held by the Commonwealth. ANL was now required to prepare a corporate plan, work towards an overall financial target agreed to by the Minister, pay an annual dividend, and revalue its assets at least every five years.

Despite managerial initiatives aimed at increasing efficiency, ANL's financial performance deteriorated in the early 1990s. Under its 1989/92 corporate plan, ANL:

- disposed of the two remaining Cape-size bulk carriers, acquired in the mid-1970s and employed carrying iron ore and coal to Japan;

- ordered two 2,700 twenty-foot equivalent units (teu) container ships for the Asian trades and two vessels for its Bass Strait service, enabling the Line to benefit from advanced technology and reduced manning levels;

- merged its fleet management operations with those of Associated Steamships to form ASP Ship Management;

- established a Joint Management Group with P&O to manage their combined interests in the UK/Europe to Australia and New Zealand trade; and

- entered into joint terminal ventures, including National Terminals (Australia) Ltd and Brisbane Gateway Terminals Ltd.

These initiatives effectively separated core commercial shipping operations from associated ship operation, terminal, cargo handling, and shore-based transport operations.

Notwithstanding these initiatives, the ANL Group incurred negative earnings before interest and tax of $37m in 1991/92, $7m in 1992/93 and $25m in 1993/94. The Board attributed the disappointing results to several factors, including poor trading

[2] In 1977 ANL management adopted a 20-year (rather than a 16-year) write-off period, but returned to a 16-year period in 1984.

[3] The loan allowed $50.5m of existing Treasury loans to be converted to capital. The remaining $20m was used to repay a treasury on-lent loan falling due on 1 June 1985.

conditions during the recession of the late 1980s and early 1990s; high interest payments stemming from the cost of re-equipment and the Commonwealth's failure to provide promised additional equity funding; and the costs of preparing for privatisation. In 1993/94 ANL reported a record net loss of $129m, including one-off restructuring costs and asset write-downs totalling over $100m. Prominent among the restructuring costs were provision for redundancy payments and a loss on the sale of ANL's shareholding in Australian Stevedores, while the Line also wrote-down the value of goodwill and conference carrying rights in various overseas trades.

Competition in the Shipping Industry

ANL's poor financial performance has been ascribed to several factors. Among these is the intense competition in both liner and bulk shipping markets during the past two decades. Such competition arguably stems from both cyclical and structural causes. 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 booms 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 continue to add tonnage to the world fleet. In such periods 'too many ships chase too few cargoes' and freight rates fall. Though ANL's profits/losses have varied across the cycle, as have those of other owners, profits earned in the booms have been insufficient to counter losses made in the lean years.

Major structural changes have occurred in shipping markets over the past quarter century. In the liner trades, escalating cargo-handling costs led to the introduction of purpose-built container vessels and associated cargo-handling equipment: labour-intensive cargo handling was replaced by a capital-intensive system. The entry of new lines, especially those of entrepreneurial Asian shipowners, intensified competition, forcing shipowners to seek cost savings through the introduction of larger vessels, the adoption of new types and patterns of service, and the minimisation of port calls. Thus, economies of vessel size have led to the introduction of large 'third' and 'fourth' generation container ships (up to 5,000teu capacity) where cargo volumes permit; shipowners have increased vessel utilisation by developing 'round-the-world' and 'pendulum' services; and port calls are limited to 'hub' ports, in which cargo is brought into and distributed from such ports by feeder vessels. Large third and fourth generation container ships now operate high-intensity services between North America, Europe and Asia, the three major trade generating regions of the northern hemisphere. Intense competition between shipping lines ensures that freight rates reflect the economies of vessel size. Australian overseas trade increasingly tends to flow into Asian hubs for on-carriage to Europe and America, threatening the traditional direct services to UK/Europe and North America.

A Poorly Defined and Ill-Focused Strategy

To survive in this competitive and fast-changing world, a shipping line must pursue a strategy valued by the market and compatible with its distinctive competences. Ar-

guably, ANL has followed inappropriate strategies for a small line operating in a high-cost economy.

The Commonwealth government encouraged ANL to enter the Australia-Europe liner trade. Though supporting containerisation, the government feared that it might strengthen the monopoly power of the conference lines. The government sought to gain an insight into the costs of container operations by encouraging ANL to join one of the emerging container consortia. ANL itself favoured entry to the Australia-Japan trade; having introduced roll-on-roll-off (ro-ro) vessels to the Australian coast, the line saw an opportunity to extend this technology to a deep-sea trade. During the 1970s ANL entered several more overseas liner trades, notably Australia-North America, Australia-Southeast Asia, and Australia-New Zealand.

ANL's overseas liner strategy was to deploy one or two vessels in a number of trades, usually operating within a consortium and invariably joining conferences. Whereas this strategy made sense in the early 1970s, when conferences were powerful and traditional trade patterns dominated, it became much less attractive in the late 1970s and 1980s given the developments in shipping markets outlined above. By the mid-1980s ANL's overseas liner strategy made little sense, since the line had failed to build a commanding strategic position in any of the trades in which it operated. The market conditions prevailing in the 1980s and 1990s mean that an undifferentiated, poorly focused liner service is unlikely to prove profitable.

Given its size, modest capitalisation and high-cost structure, ANL could not aspire to become a major player in container-shipping markets or a low-cost supplier of shipping services. However, ANL might reasonably have pursued either differentiation or focusing strategies. Differentiation strategies involve the development of a product or service that the firm's customers believed to be superior. The obvious differentiation strategy for ANL is that based on its specialist knowledge of distribution within Australia. A highly efficient door-to-door transport service, offered by ANL in strategic alliance with an Asian line, could lower the price sensitivity facing ANL.

Focus or niche strategies stem from the assumption that a firm is able to serve a narrow strategic market more effectively and efficiently than competitors following less focused strategies. Two niche strategies appear immediately attractive: the operation of a feeder container service from Australia to an Asian hub, and the development of specialist liner services catering for the peculiar needs of Australian trade (such as refrigerated-container or car-carrying services).

But, although ANL's management understood the deficiencies in the line's strategy, it lacked the funds to implement the necessary major strategic changes.

Government Interference in ANL Decision-making

Arguably, ANL's performance has been adversely affected by the actions of government. The board has not been able to operate as a commercial enterprise, free from intervention by politicians and/or bureaucrats. According to Captain Sir John Williams (1981:212), the first chairman of the Australian Shipping Commission, Ian Sinclair, Minister of Transport in 1968-71, viewed the Australian Shipping Commission as a 'political instrument', subject to direction by the Minister and Department of

Transport Bureaucrats.[4] As well, under Section 19 of the Australian Shipping Commission Act 1956, coastal freight rates were subject to ministerial approval. Ministerial refusal to sanction rate increases during the 1960s and 1970s led to a deterioration in the Line's financial position (ANL, 1970:6). Moreover, under the Whitlam Labor Government of 1972-75, ANL was viewed as a 'pacesetter' for an expanding Australian flag fleet and was encouraged to order four large bulk carriers suitable for the expanding Australia-Japan iron ore trade. Given the intensity of competition in bulk shipping, freight rates obtainable did not enable the vessels to operate profitably; ANL's financial crisis of the early 1980s in part reflects the losses incurred by these vessels. But ministerial involvement in ANL decision-making was reduced following the passage of the Australian Shipping Commission Amendment Act 1983 and the 1988 Act converting ANL into a public company.

Political control over borrowing and investment has likewise influenced ANL's financial performance. The Commonwealth's reluctance to increase ANL's capital during its expansion into overseas markets in the 1970s led to an increase in the gearing ratio from 1.06:1 in 1970 to 13.58:1 in 1977, sharply increasing interest payments on borrowings. More recently, ANL's former Chairman Captain Bolitho has criticised the government for failing to honour a commitment to provide \$100m in equity to part-fund the Line's 1989 re-equipment program (*Daily Commercial News*, 20 September 1994), p.176). On the other hand, ANL has avoided the discipline that would follow from forgoing government guarantee of its debt and having to compete for equity funds.

ANL management and employees have been subject to public-service conditions of employment. This impedes operational flexibility and makes it difficult to maintain an appropriate incentive structure for senior management. The 1988 Act converting ANL into a public company provided that employees of the Commission would retain the same terms and conditions of employment: staff having rights under Part IV of the Public Service Act retained those rights.

High Operating Costs under the Australian Flag

Historically, Australian flag vessels have incurred much higher costs than their overseas competitors. But attempts have been made to reduce the (absolute and relative) costs of operating Australian flag vessels.

Dissatisfaction with the performance of ANL and, more generally, with the high price and poor quality of coastal shipping services led to political pressure for shipping industry reform in the early 1980s. Reporting in 1982, the Crawford Committee recommended a 'revitalisation' package aimed at encouraging investment in modern, fuel-efficient tonnage through the linking of fiscal incentives to reductions in crew size (Crawford, 1982). Under the Crawford package crew sizes fell from 33 or more to 26-29.

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[4] Williams also alleges that he was instructed to sign the so-called 'Canberra Agreement', under which ANL entered the Australia-Europe trade in partnership with the container consortia Associated Container Transportation Ltd.

Since crew levels remained high relative to international best practice, the Hawke Government set up the Maritime Industry Development Committee (MIDC), whose 1986 Report *Moving Ahead* recommended the introduction of further financial incentives to encourage owners to invest in labour-saving vessels, made possible by 'integrating' deck and engine-room crews. Under the Ships (Capital Grants) Act 1987, later extended to 1997, such vessels qualify for a taxable grant of 7 per cent of their purchase price and owners are allowed to claim 20 per cent accelerated depreciation. Crew levels on new vessels have been reduced to 21-22 under the MIDC package; average crew size across the Australian flag fleet fell from 27.9 in 1989 to 22.5 in 1991 and 20.9 in 1992. But as manning levels have also fallen in other countries, Australia's relative competitiveness has improved only marginally. Moreover, measuring relative competitiveness by reduction in crew size tends to overstate the improvement in Australia's position. Under Australian award conditions, seamen enjoy relatively generous leave provisions, implying that an Australian vessel trading year round must employ 2.1-2.2 crews per vessel as against an OECD average of 1.6-1.7, and owners incur high capital costs to provide accommodation of an acceptable standard.

Improvements in manning levels are not of themselves sufficient to create a fully competitive Australian shipping industry, since manning costs account for only 8-10 per cent of the total costs incurred by a coastal vessel (Payne, 1994). The Australian Shipowners Association (1995:32) has argued that the creation of a fiscal regime comparable to those enjoyed by major shipowning nations is a necessary condition for the long-term survival of an Australian flag fleet. The settlement of the September 1994 waterfront strike over the sale of ANL included concessions by government that allowed seamen employed in Australian flag ships trading overseas to be exempt from income tax.

Does Australia Need a National Shipping Line?

Does the case for a national line hinge solely on profitability? Does a national line confer benefits above and beyond the bottom line? Supporters of national shipping lines have advanced different arguments for them.

'Window into conferences' and/or instruments for the control of monopoly. With a cost structure markedly higher than those of many of its competitors, ANL has always chosen to operate within conferences. The need to obtain information relating to conference pricing and investment decisions underpinned ANL's entry to the European trade. Yet the line's commercial interests conflict with its use as a 'window into conferences'. Conferences exerted considerable market power in the 1950s and 1960s. But today's liner trades are highly competitive. Moreover, conferences are unlikely to regain their earlier market power. The share of trades held by conference members has shrunk; independent non-conference lines and consortia offer genuine and viable alternatives to conference services. The power of shippers has increased at the expense of shipowners; the flexibility and ease of transhipment of containers enables them to be moved along a variety of paths, enhancing competition. Shippers are aware of price/quality trade-offs and freight forwarders seek to 'make a buck' by offer-

ing new products and services. And public policy favours competition rather than collusive action.

Balance of payments effects. Research has shown that domestic-flag vessels operating profitably make a positive contribution to the current account of the balance of payments (Centre for Transport Policy Analysis, 1988; Appelbaum, 1988; BTCE, 1988). However, this contribution is a limited one. Vessels are usually purchased and financed abroad; the majority of vessels trading internationally are drydocked and repaired overseas; and the profitability of vessels engaged in overseas trading is usually low. In any case, profitability (rate of return on funds invested) rather than balance-of-payments gains is the ultimate determinant of an industry's viability; the ability to achieve an acceptable rate of return on capital provides the economic justification for further investment. The rate of return on ANL investment in overseas shipping appears low compared with the rate of return reported in other industries.

Employment creation. Does the employment created within the Australian shipping industry warrant government support and/or subsidies? Viewed from the perspective of the industry and the maritime unions, subsidisation is the price of maintaining a potentially valuable pool of skills. However, subsidisation of such a capital-intensive industry is an extremely expensive way of creating jobs.

National security. National-flag vessels may be an asset from a defence or national security standpoint: ro-ro vessels with the ability to land troops and equipment at forward beach heads could be employed in the event of regional conflict; cellular container vessels and bulk carriers could be used as launching pads for helicopters. A national fleet would also provide a nucleus of vessels to carry essential imports and exports in time of war. However, such vessels are normally available for charter. And the fact that certain types of vessels may prove useful for defence purposes does not justify the general subsidisation of the shipping industry.

As Richard Goss (1994:30) has noted, it is difficult to find any theoretical arguments to justify general support for a national shipping line or, indeed, a shipping industry:

> Shipping is not necessary to promote overseas trade; it is not an infant industry; investment in it has no special effects 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.

Privatisation: The Options

In June 1991 the Commonwealth government obtained Labor Party approval for the sale of 49 per cent of ANL; maritime union agreement was reportedly conditional upon a $100m capital injection to assist in re-equipping and modernising ANL's fleet.

Although the anticipated proceeds from the sale of 49 per cent of ANL were included in the 1992-93 Budget papers, press reports suggest that little interest was shown by potential purchasers, whether domestic or foreign.

The value of ANL is hotly disputed. A 1992 report by Potter Warburg/Price Waterhouse argued that ANL's value lay between $171m and minus $127m (*The Australian*, 24 August 1994). In contrast, the 'due diligence' study undertaken by Salomon Brothers/Price Waterhouse reported in August 1994 that ANL's 'indicative' value lay between minus $74.8m and minus $117.8m (*The Age*, 27 August 1994). The latter report apparently valued ANL on a 'fire-sale' basis rather than as a going concern, which accounts for the markedly lower values placed on vessels and fixed equipment.[5]

Reacting to the Salomon Brothers/Price Waterhouse valuation, Laurie Brereton, the Minister of Transport, declared in August 1994 that 'you couldn't give it [ANL] away, that's the reality' (*The Australian*, 24 August 1994). Mr Brereton immediately replaced ANL's board of directors, appointing former New South Wales Labor Premier Neville Wran to chair a new four-member board charged with producing a plan for the Line's reconstruction.

Union concerns over the future of ANL were heightened in early September 1994 when Mr Brereton announced that ANL's 25 per cent stake in Australian Stevedores would be sold to Jamison Equity. The Maritime Union of Australia (MUA) then called a strike which effectively shut down Australian ports. Union leaders let it be known that they had a mandate from their members to maintain bans for several weeks if they did not receive satisfactory assurances regarding the future of ANL.

In September 1994 the government changed tack and announced an industry assistance package that exempted from income tax the salaries and wages of Australian seamen employed on vessels trading overseas, confirmed that cabotage would be retained, and pledged to restructure ANL as an economically viable enterprise, while rejecting a proposal from the Shipping Industry Reform Authority to allow foreign ratings on Australian ships engaged in international trading. The MUA now abandoned its objective of retaining ANL in public ownership; and the government announced that ANL would be offered for sale through an 'open-tender' process, conditional upon the new owners retaining the vessels under the Australian flag.

In principle, a range of options is available to the government.

Stock-exchange float. ANL's poor financial performance, the likelihood of further losses if the line continues to operate its present mix of services, and the need to inject substantial funds in order to pursue more realistic strategies rule out a stock-exchange float in the foreseeable future.

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[5] The Salomon Brothers/Price Waterhouse valuation included allowance for the cost of closing ANL's Head Office ($60m) as well as provision for redundancies ($69m). It is open to government to assume this debt prior to sale.

Trade sale. A trade sale has emerged as one of the preferred options. During late 1994 and early 1995 the new board reportedly held negotiations with several potential purchasers, including the British P&O Group, the American-owned Sea-Land, and the French-controlled Australia New Zealand Direct Line (ANZDL).

P&O has strong historical links with the Australia/Europe liner trade which it continues to serve in alliance with Contship Container Line. Over the past decade P&O has been strengthening its strategic position in several Australian overseas liner trades. In addition to the European trade, P&O now operates in the Australia-Southeast Asia, Australia-East Asia, Australia-Middle East, Australia-North America, and trans-Tasman trades. Given P&O's market share in key trades, acquisition of ANL might attract the attention of the Trade Practices Commission.

Sea-Land has withdrawn from contention following the rejection of its initial bid. The Line may retain an interest in entering a strategic alliance with a restructured ANL.

ANZDL took part in a 'due diligence' process but ultimately declined to submit a bid for ANL, leaving P&O as the only trade bidder as of August 1995. The sale of ANL to P&O — for under $20m — is said to be the preferred option of senior ministers.

Retention of present ownership (with or without equity injection). Retention of ANL, which appeared unlikely earlier in 1995, is now back on the political agenda. While the government may prefer to sell ANL to P&O, it may also wish to avoid the politically damaging waterfront strike that seems likely to accompany its sale. Minister Brereton has signalled that, if the sale to P&O is ruled out, the government would be forced to consider a major restructure of the Line (*The Australian Financial Review*, 10 August 1995). ANL management has reportedly prepared two restructuring options. Option A envisages ANL withdrawal from the Australia-Europe container trade; the sale of ANL's 50 per cent share in Coastal ExpressLine to Union Shipping; the sale of non-core land- and technology-based businesses; and a reduction in the size of corporate HQ. Option B builds on Option A, with ANL withdrawing also from the trans-Tasman trade and selling the two vessels currently employed in that trade. Option B would imply a significantly scaled-down ANL, focusing on the Asian and (to a more limited extent) the Australian coastal trades. In effect, Option B converts ANL to a niche operator in the Asian trades.

Management and/or union buy-out. In September 1994 the MUA proposed the formation of a consortium to acquire a majority interest in ANL. The American ocean carrier Sea-Land and Australian transport group Linfox were mentioned as possible partners. The proposal appears to have been abandoned.

Merger with 'like-minded' line. This option was preferred by ANL management in the late 1980s and early 1990s. The search for a 'like-minded' line interested in merging with or purchasing a minority interest in ANL foundered when the most

likely candidate, K-Line, ruled out acquisition of a significant shareholding (*Daily Commercial News*, 9 October 1991).

Package and sale of separate businesses. Arguably, ANL's businesses might yield better prices if sold separately. ANL's conference shares in, say, the UK/European trade may be valuable to a line interested in building market share, while ANL Intermodal may be of interest to a firm introducing or enhancing a door-to-door transport service. For the approach to be successful, imaginative packaging and accurate pricing of the individual businesses would be critical. Politically, such an approach could be difficult to sustain, given that the purchaser of, say, ANL conference rights in the UK/Europe trade might not be interested in purchasing the ANL vessels currently operating in the trade. Even if willing to purchase them along with the cargo rights, a purchaser might be reluctant to operate them with Australian crews.

Sale of non-core assets. Arguably, many non-core assets have already been sold. Should ANL continue under government ownership, further disposal of non-core assets would be dependent on a redefinition of ANL's core business.

Concluding Remarks

In September 1995 the federal government, P&O, and the maritime unions agreed to defer the decision on ANL until 31 October. P&O and the maritime unions have agreed to negotiate during this period 'in good faith' the industrial relations issues associated with the Line's sale. Should they be unable to reach agreement, the government is committed to restructure ANL.

Privatisation offers potential benefits but is also associated with certain risks. Efficiency gains should be experienced as a result of: the removal of constraints associated with public ownership (especially the shortage of equity capital and political and bureaucratic interference in decision-making); superior operating efficiency; exploitation of synergies with existing international and/or coastal shipping services; and the adoption of superior strategies. ANL's goodwill and conference-carrying rights may be valuable to a line seeking to build market share in Australian liner trades.

However, the sale of ANL is unlikely to provide a windfall gain to Treasury. ANL operates twelve vessels, only four of which are owned outright. Government insistence that they continue to employ Australian crews, under Australian award conditions, will lessen their attractiveness to potential buyers, although the September 1994 reform package reduces the cost penalty.

Would competition increase as a result of ANL privatisation? The answer is unclear. ANL is a very small player in international shipping markets. In the long run, the level of competition in Australia's overseas liner trades will depend on the supply-demand balance in container shipping and the further development of paths through which liner cargoes can be routed. Sale of ANL to a company already holding a substantial market share in one or more of our overseas trades would strengthen that company's strategic position in the short run.

The effect on coastal trades is linked to the government's September 1994 agreement to retain the cabotage system.[6] A potential bidder is likely to ask for guarantees concerning cabotage, and the government may agree in order to maximise ANL's sale price. In so doing, the government would deny Australian industry access to lower-cost coastal shipping services, as well as negating a potential advantage of selling ANL, namely, the adoption of an Australian shipping policy reflecting the public interest rather than the interest of the national shipping line.

Retention of ANL may appear the least costly option politically. However, it will cost the federal government a great deal of money either to restructure the line or to keep ANL operating in its present form. Restructuring along the lines of ANL management's Option B would put in place a coherent strategy. However, in the absence of further reform of shipping and the waterfront, profitability could not be guaranteed. Nor should restructuring be viewed as a cheap option. Repositioning ANL would require substantial investment in vessels and equipment, as well as a willingness to carry losses until such time as the Line is effectively repositioned in the market.

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[6] The cabotage policy effectively reserves coastal shipping for Australian-flag and Australian-crewed vessels. Technically, foreign-flag vessels may operate on the coast providing their crews are paid Australian award wages. No owners have taken advantage of this option. However, foreign ships may carry cargo under single voyage permits (see Trace, 1993).