Standing Committee on Rural and Regional Affairs and Transport

Inquiry into the policy, regulatory, taxation, administrative and funding priorities for Australian shipping

Submission by CSL Australia

CSL
AUSTRALIA

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1. Introduction

CSL Australia (CSLA) is the largest dry bulk shipowner/operator on the Australian coast. A subsidiary of Canadian owned Canada Steamship Lines (CSL), CSLA own and operate a fleet of up to twelve self-unloading bulk carriers, pneumatic cement carriers, standard bulk carriers and transhipment vessels in the Australian coastal region. Over 27 million tonnes of dry bulk cargoes, including cement, clinker, sugar, iron ore, gypsum, mineral sands, magnetite and coal are shipped and transhipped on CSLA vessels for major industry participants on an annual basis. The CSLA coastal vessel footprint operates in the federal regulatory regime and consists of four General Licence (Australian flag and crew) vessels and a flexible number of vessels operating under a Temporary Licence.

The CSL Group core business is owning and operating self-unloading bulk carrier vessels. In Australia, this also extends to fully enclosed pneumatic cement vessels. These are environmentally friendly vessels that eliminate air-borne dust from cement that is discharged into shore side cement facilities.

2. Executive Summary

The Australian shipping industry involves the movement of Australian cargo both around the coast and overseas. The industry encompasses port services, cargo owners, ship operators, ship owners and associated corporate services. In 2019, the Australian shipping industry is actively moving cargo by sea and generating considerable benefits for the Australian economy. To focus only on Australian flag/crew vessels creates a disproportionate view when considering the scale of the associated shipping activities that take place in Australia. Nonetheless, the size of an Australian fleet is related to the opportunities available for Australian seafarers to gain adequate training and experience to provide Australian shipping businesses and ports services with a maritime skill base. The high operating costs of Australian vessels are uncompetitive in a global shipping market that is rapidly consolidating and modernising, however there is little opportunity to reset this cost base in the current market.

The Australian dry bulk vessel fleet has declined primarily due to market forces and the age of the fleet. The regulatory environment did not change dramatically when the Coastal Trading (Revitalising Australian Shipping) Act [CT Act] was introduced in 2012 – under both regimes, Australian vessels were given priority access to cargoes and foreign vessels required a permit or a licence. The CT Act targeted the conflicting objectives of promoting both competition and Australian vessels. This was impossible to achieve from the outset due to the high operating cost of Australian vessels and the major downswing in the international shipping charter market.

This submission provides perspective from an Australian ship owner and operator of both Australian and foreign dry bulk vessels and addresses the current state of the dry bulk sector. A number of concepts are presented as opportunities to incentivise cargo owners to request Australian vessels, thus providing investment opportunities for Australian shipowners and opportunities for Australian seafarers to build the Australian maritime skill base.

3. Decline of the Australian Fleet - 2012 to 2019

The decline in the number of Australian flag and/or crew vessels since 2012 has little to do with the Coastal Trading (Revitalising Australian Shipping) Act 2012. The premise of the 2012 legislation was not dissimilar to the regime that operated prior; if an Australian vessel was available and able to perform the shipping task, a permit/licence would not be issued by the government to a foreign flag vessel to perform the voyage. This concept was tested numerous times via the Notice in Response process under Labor and Liberal government direction, with limited support from both parties for an unrestrained approach to Australian vessel priority.

The fleet decline is primarily a result of timing and circumstance. A low international shipping charter market and high AUD/USD exchange rate in 2012, coupled with the age of the Australian fleet and the high cost to buy/replace a vessel, created an uncertain regulatory environment in which any legislation would have struggled, particularly one with conflicting objectives. These macro environmental factors, together with the high operating cost base of Australian vessels assisted in the dramatic decline of Australian vessels, particularly in the dry bulk fleet.

As shown in Figure 3.1, the current 2019 dry bulk market reflects similar trends to 2012, with low international market charter rates. International vessels operate at about US$7,000 per day, resulting in the current market meeting the baseline operating costs of these vessels. Australian vessel operating costs are substantially higher and have increased since 2012, reflecting the average 4% wage increases across the major coastal Enterprise Bargaining Agreements in operation during this period. If an Australian ship had been trading at international market rates for the last 7 years, the vessel, as an individual profit centre, would have made a total loss of A$34 million. These figures reiterate that Australian vessels simply cannot compete with international market vessels.

Fig 3.1 - Dry Bulk Market – Australian vs International – 2012 vs 2019

	July 2012	January 2019
AUD/USD Exchange Rate	1	0.71
International dry bulk market charter rate (A$ per day)	7,000	8,500
Australian vessel operating cost (A$ per day)	20,000	22,000[1]
Differential (A$ per day)	13,000	13,500
Differential (A$ per annum)	4,750,000	5,000,000

In addition to cost factors, the existing Australian flag and/or crew fleet of 15 dry bulk vessels in 2012 reflected an average age of 19 years. Common practice in the dry bulk industry shows that vessels over the age of 25 will likely be recycled/scrapped within 5 years (see figure 3.2). Three vessels have been recycled since 2012 due to age, and a fourth was deemed a total loss after an incident.

The international market is continuing to consolidate, with older vessels being scrapped earlier in their life cycle due to low market charter rates and environmental regulations. The maximum age restriction for vessels calling at coal terminals is between 10 and 20 years, and the average age of all

[1] reflects a 4% wage increase per annum from 2012 to 2019

vessels (not only dry bulk) calling at Australian ports in 2017 was 9. The average age of the remaining dry bulk Australian fleet is 28. Replacement vessels come at a significant cost (A$12 - A$30 million per vessel depending on second hand or newbuild). Without stability in the coastal regulatory regime, a ship owner/operator will not invest, and a cargo owner will not commit to a contract that reflects a high level of capital expenditure, making it difficult to re-establish an Australian coastal dry bulk fleet.

Figure 3.2 Dry Bulk Vessels – Australian Flag/Crew

	2012	2019
Number of Australian flag dry bulk vessels	8	4
Average age of Australian flag dry bulk fleet	23 years	28 years
Number of Australian crew / foreign flag (Transitional)	7	0
Average age of Australian crew / foreign flag vessels (Transitional)	16 years	n/a
Average age of combined Australian flag and/or crew Vessels	19 years	28 years
Average age of all vessels calling at Australian ports in 2017[2]	9 years (2017)	

4. Current Regulatory Environment

The Coastal Trading (Revitalising Australian Shipping) Act 2012 attempted to create a level playing field between Australian and foreign flag vessel operating costs. This did not happen. The tax incentives, General Licence vessel priority provisions and Fair Work Act/Seagoing Award Part B payments did not create an environment whereby Australian vessels could compete with foreign vessels. In addition, the administration of General Licence vessel priority from the commencement of the CT Act (under both governments) has not provided certainty or confidence for shipowners to invest in Australian vessels and attempt to compete with foreign vessels.

5. Incentives to support Australian Shipping

An Australian shipping industry is of benefit to the broader Australian economy. The issue in recent years is defining the concept of an Australian shipping industry and accepting that the success of this industry is not contingent upon how many Australian flags are flying on vessels sailing around the coast. Success should be defined by how much value is added for the consumers of shipping, i.e., the cargo owners, the receivers, the miners, the manufacturers and the ultimate end consumer. The users of these shipping services must see a tangible benefit, be encouraged to request Australian services and ultimately choose these services over a foreign operating model. If the users are forced into a shipping solution that is more expensive and does not add value, there will never be a stable or sustainable industry. The regulators must recognise this and build a regulatory framework that offers incentives for the shipping user to "Buy Australian", while demonstrating the value added by Australian owners, operators, high skill level seafarers and shore based maritime professionals.

[2] AMSA Port State Control Report 2017

The following strategies offer incentives to cargo owners that also benefit the industry as a whole:

- Australian flag vessel priority at Australian ports
- Bunker fuel rebate for Australian vessels on coastal voyages
- Seafarer tax offset
- Seatime bonus scheme

These strategies would be funded by a Coastal Levy, as a replacement for the current Fair Work/Seagoing Award Part B payments.

5.1 Australian flag vessel priority at Australian ports

Coastal vessels can make over 150 port calls a year. Congestion at berths and ports around Australia can lead to delays of up to 20 days or more. This congestion can be attributed to demand spikes, vessel schedules, weather events and other unforeseen factors.

In the shipping industry, the cost of port delays is borne by the cargo owner under a compensation method called laytime. This method stipulates a financial penalty known as demurrage. Demurrage is the daily rate payable for any time that is in addition to the maximum amount of time agreed in the contract. A specific amount of waiting time may be included in the freight rate, however any time over and above this will be charged as demurrage. It is a variable cost that cargo owners find difficult to forecast and control.

Often, the demurrage rate reflects the charter market, or in longer term contracts it may reflect the operating cost of the vessel. Therefore, if a foreign vessel was waiting for a berth for 10 days, the cargo owner would be charged A$85,000 (using current charter rates). If an Australian vessel was waiting for berth for 10 days and the demurrage rate reflected operating costs, the cargo owner would be charged A$220,000. The incremental impact across a 45,000mt shipment would be A$1.88 per mt for a foreign vessel and A$4.88 per mt for an Australian vessel. If the base freight rate was only A$15 per mt, this is an additional 30% variable cost exposure for an Australian vessel.

This demurrage exposure risk varies between ports and cargoes around Australia, however it demonstrates an additional cost factor that the cargo owner will consider when considering an Australian vessel.

If a legislated requirement of Australian vessel priority could be established across all Australian ports, cargo owners would see the benefits of freight cost and supply chain stability. Australian shipowners would benefit from scheduling efficiency and increased freight revenue resulting from less waiting times and a greater number of voyages in the year.

5.2 Bunker Fuel Rebate

Australian coastal vessels are disadvantaged in the purchase of bunker fuel when compared to foreign vessels that move on and off the coast. The price of bunkers in Singapore is approximately US$150, or 25% lower than Australian bunkers in ports such as Gladstone and Melbourne. An Australian coastal vessel trades only on the coast and is tied to the local bunker supply market, whereas a foreign vessel can purchase sufficient bunkers in Singapore or other Asian ports prior to trading on the coast. If a foreign vessel is only performing 2-3 voyages in Australia, the vessel will then leave the coast and refuel in Asia. This cost disadvantage is about US$3,600 per day[3], US$29,000/A$41,000 for a 12-day voyage[4], or A$0.92 per mt on a 45,000mt cargo.

A 25% bunker rebate for Australian vessels on both laden and ballast legs would fully offset a cost differential between Singapore and Australian bunkers. This would require funding of approximately A$700,000 per year for a vessel that consumes 24 mt IFO per day while steaming. Alternatively, a rebate would apply only on laden legs that would require funding of approximately A$400,000 per year per vessel.

An Australian vessel bunker rebate scheme would reduce the freight costs for cargo owners and would lessen the disparity between Australian and foreign vessels. A laden leg only rebate would also incentivise shipowners to minimise ballast legs and encourage different cargo owners to collaborate with each other via the shipowner to create complimentary trades that minimise ballast legs eg a cargo of clinker from Adelaide to Brisbane, with a subsequent cargo of calcite from Gladstone to Geelong would minimise ballast time and maximises the bunkers eligible for the rebate.

Any bunker rebate scheme would be funded by a Coastal levy (see 3.4 below).

5.3 Seafarer tax offset for coastal voyages

The current seafarer tax offset scheme is available to seafarers undertaking overseas voyages for over 91 days a year on a certified (Australian registered) vessel. Currently, no seafarer or company would be eligible for this offset, as there are no Australian seafarers employed on Australian registered vessels undertaking overseas voyages.

The concept of the seafarer tax offset could be extended to seafarers undertaking coastal voyages. This would allow a reduction in the baseline wage rates and overall operating costs of an Australian vessel. Seafarer tax incentive schemes are prevalent throughout the global shipping fleet to encourage seafarers from countries with higher tax rates to participate and compete with international seafarers from a take home pay perspective.

The barrier to allowing this scheme on coastal voyages is the comparison with land-based industry. The supporting argument for a tax scheme should demonstrate that the global nature of shipping exposes Australian seafarers to the international labour market like no other industry. Vessels employing foreign seafarers call at Australian ports and physically enter the Australian industrial landscape on a daily basis. Australian seafarers need to be able to compete in this labour market, and a tax relief scheme will assist in this. It will also reduce costs associated with Australian vessels and corresponding freight rates, thus incentivising cargo owners to charter Australian vessels.

5.4 Sea time Bonus Scheme

The implementation of a scheme to reward seafarers for reaching sea time milestones would contribute to both the Australian maritime skillset and encourage seafarers to agree a lower leave ratio with employers, thereby reducing operating costs for Australian vessels. Bonus payments would be received on reaching sea time milestones – the more sea time a seafarer undertakes, the

[3] Based on a modern vessel consuming 24 mt IFO380CST per day
[4] Including 4 days steaming laden, 4 days steaming ballast, 2 days to load, 2 days to discharge

quicker these milestones would be achieved. This scheme would be funded by the Coastal Levy (see 3.5)

The current leave ratio in the Seagoing Industry Award is 0.926 days of leave for each day worked. This effectively means that an Australian vessel must have two crews, so when one seafarer is at sea, the other is on leave. The leave ratio is a significant factor when comparing operating costs to foreign vessels. Foreign vessels often have a pool of seafarers that are onboard from 3 to 9 months at a time, with varying time on leave. This reduces the total crew numbers required over a year to about 1.3 crews, thus further reducing costs when compared to Australian crewed vessels.

A sea time incentive scheme would encourage seafarers to increase their seagoing time beyond the current 0.926 leave ratio and would fast-track the experience, skill level and training of Australian engineers and officers.

5.5 Coastal Levy

Foreign vessels undertaking more than two coastal voyages per year are currently required to pay foreign crew members Australian wage rates, as stipulated in the Seagoing Industry Award Part B, when undertaking laden voyages on the Australian coast. These wages are paid by the charterer of the vessel to the vessel owner, who then pass these funds on to the crew manager who then pay the crew. While this sounds simple, the reality of the global shipping charter market makes this process complicated. In international shipping transactions there are multiple “owners”. Often an ownership chain can involve over 10 different ship owners and operators. Ensuring that the crew are physically paid the additional Australian based wages is a difficult task and one that the charterer has little legal right to enforce.

Historically, these payments were put in place to ‘level the playing field’ with Australian vessels. While the Part B wage levels are higher than some foreign wage rates, they do not meet the levels of current EBA rates or Part A of the Seagoing Industry Award, so do not close the gap completely. Australian vessels remain more expensive, and cargo owners are paying a penalty to foreign seafarers, who are subsequently spending the additional money outside Australia and providing no benefit to the Australian economy. In addition, there is no Australian personal income tax payable by these foreign seafarers, nor is tax payable in their own country due to seafarer tax schemes. This payment is, in effect, a tax-free benefit.

Current Fair Work/SIA Part B payments are up to A$2,500 per laden day. This equates to about A$650,000 per year per vessel, if a foreign vessel was to operate continuously on the Australian coast. Replacement of Fair Work/SIA Part B payments with a coastal levy of A$2,000 per coastal operating day (laden or ballast) would reduce the disparity between foreign and operating costs by A$730,000 per year, per vessel. In rough terms, dry bulk interstate coastal demand carried on foreign vessels is the equivalent to at least 10 full time vessels. A Coastal Levy would therefore contribute A$8.8 million per annum from the dry bulk sector into a Coastal Shipping Fund.

A small additional cost or penalty for utilising a foreign vessel on the coast is a reasonable concept, however the proceeds of this penalty should be directed towards the Australian economy and assisting the Australian maritime industry. This Coastal Levy would provide funding for schemes such as the strategic fleet, bunker rebates, sea time incentives, seafarer tax offsets and training initiatives.

6. Australian International Shipping Register (AISR)

There are currently zero vessels registered on the AISR. The concept of promoting an Australian international trading fleet is sound, however the benefits and eligibility requirements are not competitive with other flag states. There is significant opportunity to amend the basic structure of AISR to promote a strong second register that would increase the number of Australian flag vessels trading in the coastal fleet.

Under the current structure, AISR vessels must be "predominately engaged in international trading", meaning that they must be trading on international voyages for over 50% of the year. There is an Australian content requirement of 2 senior positions being undertaken by an Australian. In effect, this means that 4 senior officers or engineers must be employed due to the industry standard 0.926 leave ratio. The AISR is treated as a foreign vessel while trading on the coast. Non-Australian crewmembers must be paid Fair Work/SIA Part B payments and each interstate voyage requires a Temporary Licence.

Australian shipowners would utilise the AISR if:

- the international trading requirement is removed
- a Temporary Licence is not required while on the coast and the vessel is exempt from importation
- there is an exemption from Fair Work/SIA Part B payments or a replacement Coastal Levy

Tax incentives, mixed crew and training requirements would be retained to encourage the growth of Australian shipping. The training requirement is essential for the progression of the Australian maritime skill set and promotion of seafaring careers. AISR vessels would provide additional platforms for young seafarers to obtain sea time experience.

From an operating cost perspective, an AISR vessel that is treated equal to a General Licence vessel while trading on the coast would be competitive with a foreign vessel. If a A$2,500 per day Coastal Levy applied to the foreign vessel, this would offset the additional cost of four Australian deck officers/engineers, enabling a complete level playing field. The cargo owner would also obtain the added scheduling flexibility benefit when utilising an AISR vessel due to the exemption from Temporary Licence requirements. When a foreign vessel and AISR are compared directly, a cargo owner requiring coastal services would likely opt for an AISR vessel, given an equal cost base and enhanced scheduling flexibility.

7. Strategic Fleet

Maritime Industry Australia Limited (MIAL) introduced the concept of an Australian strategic fleet in their 2017 White Paper. This subsidised structure allows for a fleet of ocean-going vessels that would operate in commercial trades by private enterprise, however would also be available to be requisitioned by the Australian government in times of war or national emergency. A strategic fleet would allow a base of Australian vessels, with Australian crews to operate on the coast and internationally. The vessels would provide a physical training ground for seafarers, together with the opportunity for engineers and officers to gain the high-level skills and experience necessary to feed port service roles (pilots and harbour masters) and shore based technical superintendent roles.

The strategic fleet concept is not dissimilar to the vessels that were owned and operated by the Australian Coastal Shipping Commission and Australian National Line (ANL) between 1956 and 1998, prior to privatisation. The fleet of container, RoRo and passenger vessels owned and operated by ANL throughout the 1960's and 1970's was designed to be available for requisition as a merchant fleet if required. The vessels were equipped to handle additional seafarers and passengers and were strengthened and designed for the transport and landing of military vehicles.

The funding requirement for each vessel in the strategic fleet is up to $5 million per year, at current average Enterprise Bargaining Agreement wage levels and conditions. This funding requirement offsets the differential between Australian and foreign operating costs and would encourage cargo owners to enter into long term commercially viable agreements with Australian shipowners.

Building a strategic fleet is an opportunity to reset the wage levels of the Australian seafaring workforce. Funding for the strategic fleet should be contingent upon wage levels that reflect the Seagoing Industry Award or that are capped at a land-based comparable level. Conditions such as leave ratios should reflect the changing Australian land-based workforce. Fly In/Fly Out (FIFO) workers are moving towards leave ratios of 0.25 – ie. 3 weeks on / 1 week off. A pool of Australian seafarers working across multiple vessels in the strategic fleet could allow for rosters such as 6 weeks on / 2 weeks off, thus reducing the annual crew requirement from 2 full crews to 1.3 crews. This would lower the Australian vessel operating cost base and reduce the gap between Australian and foreign vessels, thus minimising the funding required from the Coastal Levy or additional government funds.

8. The Australian Shipping Maritime Skillset

Support from government is required to maintain an Australian shipping industry that reflects a high-quality skillset of seagoing and port-based personnel in an environment that focuses on safety and quality of shipping and associated support services. Any approach requires reviewing the industry as a whole, however the specific benefits and requirements of each sector (dry bulk, oil and gas, near coastal, tourism/cruise, container, break bulk) must also be recognised. For example, in relation to the maritime skillset and training, the near coastal sector can be utilised to promote the lower level skillset of marine personnel. Conversely, marine pilotage positions require a high level of navigation qualification and seagoing experience on ocean going vessels of various sizes.

A gap currently exists for marine personnel to move from the lower level, near coastal skillset, to the highest marine qualification. This gap is widening due to the lack of opportunity and incentive for Australian seafarers to gain the additional experience and qualifications required to become a Master or Chief Engineer of an ocean-going vessel, a marine pilot or Harbour Master. This experience can be gained on international voyages and international vessels, however Australian seafarers have little financial incentive to gain employment on these vessels due lower wage levels and the application of Australian income tax legislation. Many international seafaring nations provide a zero-income tax incentive to their seafarers when working on international vessels. A seafarer tax offset regime would lead to wage levels that would incentivise Australians to gain employment and ongoing experience, together with a qualification in the global shipping industry.

A strong united platform from the government to encourage entry level seafarers on the Australian coast, together with support for a financial incentive for international based Australian seafarers, would maintain the current high level of skill and experience that exists within the marine pilotage and port base services sectors today.

9. Stakeholder involvement in Australian Shipping policy

All stakeholders should be involved in any change to shipping policy at a state and federal level. The commercial driver of Australian shipping is the level of competitiveness surrounding the operating cost base of vessels and shore-based activities. The end user of shipping services, the cargo owner or receiver, will determine the market for shipping services and the level of tolerance for cost in their supply chain. These stakeholders are essential to shipping policy discussions, together with ship owners and operators, port service providers and maritime personnel.