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Committee Secretary
Senate Standing Committees on Rural and Regional Affairs and Transport
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SUBMISSION TO INQUIRY INTO: PRIORITIES FOR AUSTRALIAN SHIPPING POLICY

Thank you for the opportunity to make a submission to the Senate Rural and Regional Affairs and Transport Committee's inquiry into priorities for Australian shipping policy. This submission is made on behalf of Australia's bauxite mining, alumina refining, and aluminium smelting industry.

Shipping of bulk materials such as bauxite from mines to alumina refineries, and alumina from refineries to smelters, is a critical part of the aluminium supply chain. Key shipping tasks in our industry include shipping bauxite from mines in Northern Territory and Queensland to refineries in Gladstone; and shipping alumina from refineries in Gladstone to smelters in New South Wales and Tasmania; and from refineries in Western Australia to the smelter in Portland.

The efficient bulk transport of bauxite and alumina is critical to the viability of the Australian facilities that use those materials as an input (refineries and smelters respectively), as it forms a substantial part of their production costs and they ultimately compete in global markets.

Demand for aluminium is strong and global growth in aluminium demand is expected to exceed underlying economic growth. Historically Australia has been a significant player in the aluminium industry but for this to be sustained continual improvements in efficiency and reductions in cost must be found at all stages of the supply chain.

The delivered cost of product must be competitive for all intermediate products that face global competition – for example, bauxite, alumina and primary aluminium metal. This, in turn, requires all components of the cost structure for producing that commodity to be globally competitive, including transport (shipping).

Australian alumina refineries and aluminium smelters compete against facilities in jurisdictions such as the Middle East and China, all of whom can access international shipping rates for the transport of raw material inputs.

It is sometimes claimed that shipping services in Australia cannot be expected to be globally competitive given the low labour costs for crews from some other countries. However this overlooks that other parts of the aluminium supply chain (in this instance) have had to find ways to be competitive with the same or similar countries in ways that overcome the disadvantage of higher unit labour costs. This has required looking at areas including flexibility, innovation, quality and timeliness of service.

The Council notes that the terms of reference for this inquiry include consideration of broader strategic benefits from shipping beyond the service provided directly to the procurer of the shipping service, for example "workforce development and the seafarer training system".

While the broader benefits may be deemed worthwhile, it must be acknowledged that any intervention by Governments to increase the provision of these benefits inevitably comes at a cost to the economy. A cost would result from interventions such as:

- limiting the range of potential providers of shipping services;
- restricting the range of options for contracting or arranging shipping services; and
- further constraints on work practices, particularly if it leads to cost structures that are out of alignment with global competitors.

Due to potential increased costs, if any intervention is contemplated to promote increased utilisation of Australian shipping it is essential to rigorously test:

- whether the benefits can only be provided by increased use of Australian shipping;
- who receives the benefit;
- how much of the benefit and therefore how large a shipping industry, and how large an intervention is required;
- whether the proposed intervention is the most efficient way to procure the benefits; and
- who should bear the cost.

It should not be assumed that the procurers of shipping services should bear the cost, particularly if the benefits accrue to other stakeholders or to the broader economy.

If all elements of a supply chain such as alumina and/or aluminium in Australia can be globally competitive then investment and activity will increase, including in shipping. However if costs anywhere in the supply chain are sufficiently high to make production in Australia uncompetitive then all parts of that supply chain will be lost, including the need for shipping services.

The Council encourages the Committee to look for ways to ensure Australia's shipping industry is globally competitive as this is the surest way to ensure the sustainable growth of the industry. Where changes in regulation are considered, we again ask that due consideration be given to the cost of intervention and who should bear that cost.

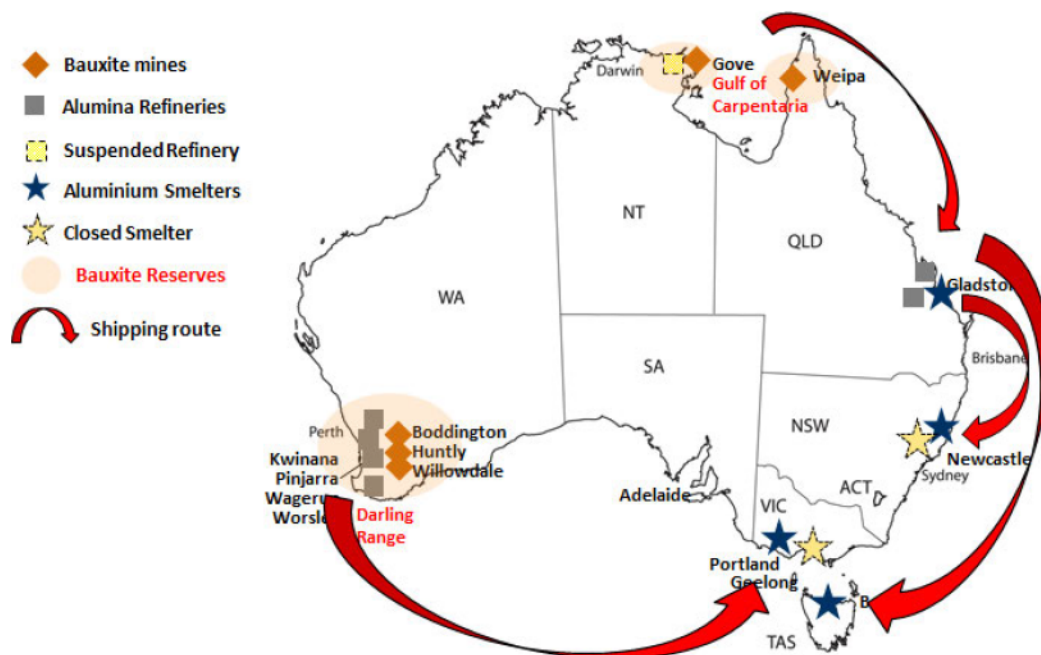
Thank you for your consideration of these matters. If you have any questions regarding this submission, please contact me.

Yours sincerely

MILES PROSSER
EXECUTIVE DIRECTOR
AUSTRALIAN ALUMINIUM COUNCIL

Background

The aluminium industry directly employs more than 13,000 people in skilled and well-paid jobs. The industry sustains the livelihoods of more than 50,000 households, most in regional Australia. We are responsible for more than \$11 billion of export earnings for the Australian economy and make up a substantial part of the economic activity in regions where we operate including Cape York, Gladstone, south-west Western Australia, Arnhem Land, Hunter Valley, Portland and northern Tasmania.



Source: AAC survey

The Position of the Aluminium Industry

The aluminium industry has a positive global outlook as manufacturing trends continue to move towards more efficient and lightweight transport systems, construction systems and food production chains.

The bauxite-alumina-aluminium supply chain in Australia could have a positive and expansive future driven by rapidly rising global demand for aluminium and Australia's particular strengths; including major high-quality bauxite reserves, energy resources, and a stable investment environment.

However, this positive outlook for the industry is tempered by challenging market conditions in the short term in Australia. A current oversupply and a significant stockpile have led to low aluminium prices for a number of years.

Impact of Current Regulations on the Industry

The Australian bauxite, alumina and aluminium industry relies on shipping as an essential mode of transport in the production supply chain. Vessels are used to transport both bauxite and alumina to refineries and smelters respectively, as well as to carry other inputs that are essential to the operation of the facilities. Shipping may also be the mode of transport used to move the finished product from aluminium smelters. Timeliness of delivery is of great importance to operations, and costs of freight are substantial for the companies involved.