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SUBMISSION 16

BP Australia Pty Ltd
28°/360 Elizabeth St.
Melbourne Vic 3000
A.C.N. 004 085 616

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The Secretary
Standing Committee on Infrastructure, Transport,
Regional Development and Local Government
House of Representatives
Parliament House
Canberra ACT 2600

Dear Secretary

RE: SUBMISSION INTO THE INQUIRY INTO COASTAL SHIPPING POLICY AND REGULATION

Summary

The Australian Shipping industry is in a critical situation. The Australian Shipowners Association predicted that by 2010 Australia will be short seafaring staff by 30%. In the absence of any action BP Australia believes that this situation will result in Australian vessels not being able to trade due to a lack of sea-staff. It may also result in large delays in port due to a lack of marine pilots and port infrastructure staff.

The high wages of Australian crew and junior officers result in the manning and operating cost of an Australian ship being double that of other OECD nations. The additional cost of AU$3million per annum increases up to AU$4million as the ship ages due to the reduced productivity of Australian crews.

BP Australia believes that the Government needs a sustainable long term solution for revitalising the shipping industry by implementing policies similar to OECD countries such as Britain, Norway, Germany or Denmark. These nations have all introduced 2nd shipping registers to revitalise their shipping fleets. BP Australia supports the Government on the inclusion of seafarers within the list of eligible occupations for skilled migration (457 visa) as a short term solution.

Until a revitalising strategy is implemented, the Federal and State Government coastal permit processes needs to be simplified and streamlined to ensure supply of Australia's increasing demand for petroleum products remains secure.

Background

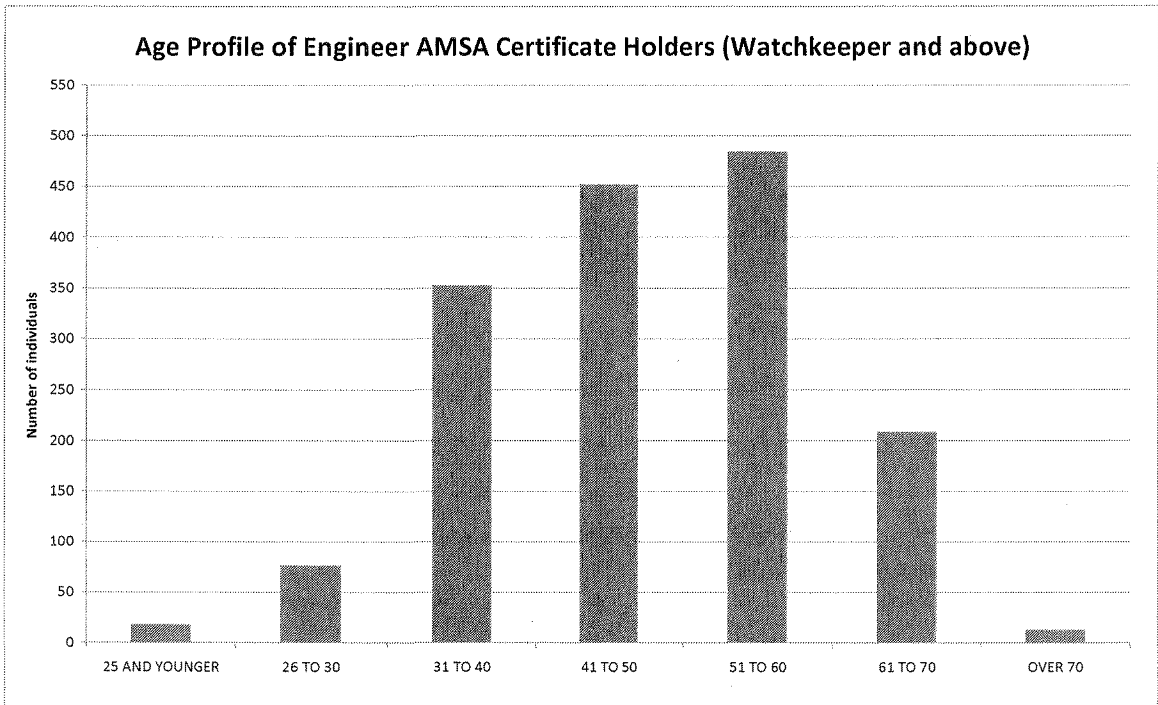
Australia's shipping experience today is supported largely by European immigrants who arrived here in the 1970's and 1980's.

Over the last 20 years Australia's shipping industry has been in decline. The number of Australian ships over 300 gross tones has reduced from 95 ships in 1983 to 37 today. A reduction in ships comes with a reduction in training opportunities coinciding with lower immigration by qualified seafarers.

Both Labor and Liberal Governments have offered little support towards the shipping industry over this period. In December 1999, John Anderson, then Deputy Prime Minister and Minister for Regional Services and Transport stated that "Australia is a shipper, not a shipping, nation".

This policy is flawed when it is understood that the blue-water shipping industry (large ships) provides the experience and training required for the 320 marine pilots servicing Australia's 70 ports and the Great Barrier Reef pilotage. Further to this, thousands of jobs in towage, stevedoring, port services, offshore oil facilities, Australian Maritime Safety Authority (AMSA), maritime training colleges and shore management, all require seafaring experience in support of our shipper nation.

The impending crisis can be appreciated from a graph highlighting the age profile of marine engineers, courtesy of the Australian Shipowners Association (ASA). The ASA estimates that Australia will be short 30% of the seafarers required to man ships in Australia by 2010. The age profile of deck officers (who become marine pilots), is equally alarming.



The cost of Australian shipping

The cost of manning and operating a new Australian ship in 2007 is double that of International rates, being an average of $5,300 a day more on BP vessels (from figures below).

BP has a solid understanding of this cost differential as we have 12 identical new product tankers (Virtue Class), 2 of which are manned by Australians, 5 manned by British officers and Filipino crew, while the remaining 5 vessels are manned by Indian officers and crew. The 2007 operating costs are -

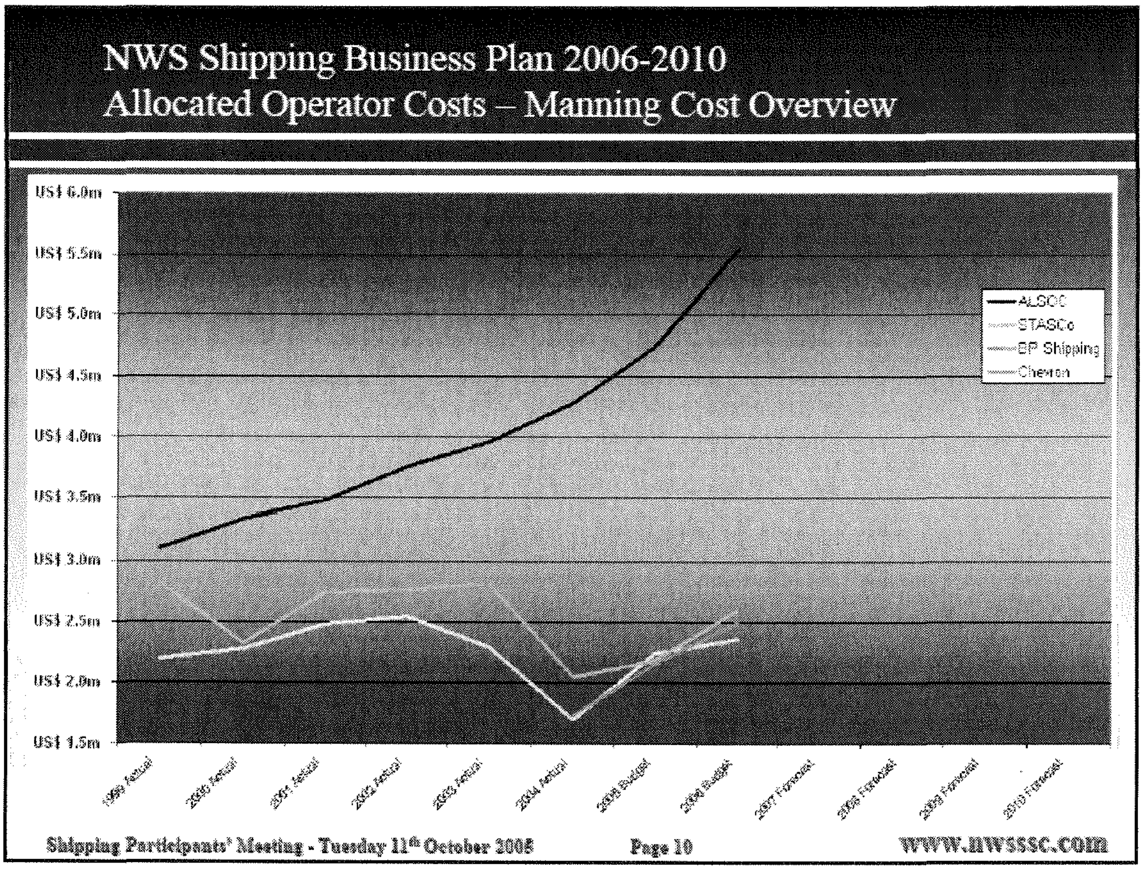
Australian officers and crew	US$10,100 / day
British officer / Filipino crew	US$ 5,500 / day
Indian officers and crew	US$ 4,100 / day

All the above officers and crew are trained to an equivalent standard. International training and certification requirements set by the International Maritime Organisation (IMO), along with BP's internal training programme, ensure that all our seafarers have reached the skill level we require for operating our tankers.

Senior British officers have comparable wages and conditions to their Australian counterparts. Senior Indian officers also have comparable conditions including leave ratios, although their wages are less. This cost differential is directly attributed to the high cost of Australian junior officers (double international rates) and Australian crew (3 to 4 times international rates).

The totally built-up cost of operating Australian manned ships increases substantially over the life of the vessel. This is directly due to the lack of fabric maintenance completed by the Australian crew compared to Filipino or Indian crew. To maintain the vessels to a standard which is acceptable to BP, the work not completed by Australians must later be done by foreign contract workers either in dry-dock every 2.5 years or by a foreign "riding-crew" who sail on board.

The graph below highlights the escalating operating costs of the 4 Australian-manned (ALSOC) LNG vessels on the NWS project against British flagged ships operated by BP, Shell (STASCO) and Chevron.



The high cost of operating Australian manned vessels provides ship-owners with no incentive to invest in Australian shipping. The only ship-owners who elect to employ Australians are those who cannot avoid Australia's cabotage rules. Permits are required under the Federal 1912 Navigation Act for vessels trading between states. Queensland's permit system requires the charterer of a foreign ship to include letters from three (3) unions, each stating that they are happy for permit to be granted.

Over the last decade numerous OECD European countries have introduced incentives to revitalise their shipping fleets. Britain, Denmark, Germany, Spain, Portugal, Norway and France to name a few, have all introduced 2nd registers which have enticed their ship owners to register vessels under their own countries flag while remaining cost competitive.

The measures taken by these OECD countries include, but are not limited to –

Introduction of a 2nd (ship) register

- 2nd register is fundamental in enticing ship owners to register ships under the flag. They all allow a mixed manning crew to include flag nationals and foreign crew

Tonnage tax

- tonnage tax which is a lump-sum tax based on the tonnage of the ship rather than on profits

Favorable depreciation rates

- accelerated or advanced depreciation, initial depreciation and favourable depreciation rate for vessel acquisition

Removal or reduction in seafarer income tax

- often removed if out of the country for a period of months

Reduction in seafarer social contributions

Subsidised seafarer repatriation schemes

- repatriation fee is subsidized for seafarers' joining or departing the vessel

The impact of shipping issues on the supply oil in Australia today

Over the last 5 years Australia's mining and population boom has coincided with the shutdown of Port Stanvac Refinery, the reduced output of Altona Refinery and the reduced throughput of all refineries due to increased specification requirements.

Australia had excess refining capacity in 2003. Today Australian refineries are unable to meet local demand. BP anticipates chartering around 60 product tanker imports in 2008 on top of our local refinery output to meet our expected domestic sales.

Supply of refined products into Adelaide and the Western Australian mining ports has become highly critical due to the large volumes of products. Oil tanker deliveries into Adelaide (now without a refinery), are akin to the 1948 Berlin airlift. Due to the limited shore tankage capacity available at Port Adelaide, a tanker needs to discharge practically every 3 days in Adelaide to maintain stocks. A delay to one vessel from any delivering oil company will have a hugely detrimental effect on Adelaide's total oil supply. Most deliveries are shared between companies under sale and purchase agreements.

The shipping cabotage rules of 1912 restrict our ability to operate our vessels optimally. Under the Navigation Act rules we need to nominate a ship along with cargo quantities, load and discharge ports, and the expected loading date. Standard application for a single voyage permit will take 5 days to process, while an urgent request can be processed in 2 days. If the discharge port rotation changes or the cargo quantity alters by more than 10% in any single grade from that nominated, we need to reapply for a permit.

In the oil industry, such changes are common place. Refineries may not produce the planned volumes, or will alter the loading quantity at the last moment. Discharge terminals often alter discharge requirements due to changes to their off-take estimates. These changes can be a direct result of other oil companies with whom we have supply agreements. The 2-day delay for a new permit application resulting from a 10% cargo quantity change or a port rotation change may have huge supply issues at the dis-port. In Adelaide, this could easily result in BP stocking out of petroleum products.

The impact of a shortage of skilled seafarers

The shortage of Australian seafarers is impacting operations today. BP recently had a situation whereby one of our Australian tankers did not have sufficient Australian crew on board to go to sea. If the situation had not been averted by the management company sourcing seafarers from other ships in their fleet, we would have stocked Adelaide out of motor spirit.

Ports are having to pay large sums of money to attract marine pilots – costs which ultimately end up being borne by consumers. To ensure that iron ore exports are not delayed, Dampier is paying pilots $400,000 a year, while Port Hedland offers a package up to $530,000. Ships have been delayed off Sydney awaiting pilots.

Although this is attractive to those with experience and qualifications, it is not sustainable. Eventually the lower paying shipping jobs will not be filled and some ships will not operate. These may be the passenger ferries to Tasmania or tankers to Adelaide.

The off-shore industry also offers extremely large wages to attract and retain staff. This sector does no training, however pays large sums effectively to poach skilled workers from the blue water fleet.

BP is probably the largest trainer of deck and engineer cadets (officer trainees) in Australia. We sponsor around 25 cadets through the Australian Maritime College (AMC), providing sea time on our British fleet. BP will be ceasing the cadet programme in 2009 as we continue to lose officers as soon as they are qualified due to the reasons outlined above.

Balance of Trade

As a nation, Australia has been rewarded largely in mining commodities or growing produce to be sold on World markets. Previous Australian Governments have appeared not to consider the benefits of capturing the income in shipping these commodities.

In the 1960's the 3 richest persons in the World (arguably), all made their income from shipping (Aristotle Onassis, Stavros Niarchos, and Daniel Ludwig). Although history may not repeat this, 2007 witnessed capsize bulk carriers earning up to US$200,000 a day for sitting at anchor off Newcastle or Hay Point. This amounts to US$3 to US$4 million for every ship sitting several weeks at anchor (demurrage). Demurrage is ultimately paid by the Australian exporting company. There have been up to 70 vessels at anchor off Newcastle in 2007.

If Australia established a 2nd shipping register which is both competitive and enticing for ship-owners to join, Australian companies would be incentivised to invest in shipping, and sell their goods at the discharge port rather than at the load port. There is a substantial reward in keeping this freight revenue in Australia.

Recommendation

BP Australia believes that it is important for the Government to establish a sustainable long term solution for revitalising the shipping industry. This could be achieved through policies such as those which have revitalised the shipping industries in other OECD countries such as Britain, Norway, Germany and Denmark.

All of these counties have established 2nd shipping registers. A 2nd register would encourage growth of Australia's shipping fleet, provide training opportunities for Australian seafarers and deliver a large financial reward for Australia's balance of trade. A 2nd register on Norfolk Island or similar may be ideal.

Until a 2nd register has been established, Federal and State Government coastal permit processes need to be simplified and streamlined to ensure supply of Australia's increasing demand for petroleum products remains secure.

Yours sincerely

Capt. Brett Whiteoak
Regional Shipping Manager – Australasia

Direct Phone: (03) 9268 4592
Mobile: 0439 031 390