

2009

Australian Shipping Policy Package



Proposal prepared by:



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V.5

Introduction and Summary

This package of policy measures is based on the commercial circumstances of May 2009. A change in circumstances would change the importance of various criteria outlined herein to produce the desired outcome.

The objective

To create a positive impact on the Balance of Payments

- Increased business activity driven by a business environment that encourages ship owning and operating businesses to establish and grow in Australia
- Increased participation in both coastal and overseas trades
- Increased investment in Australian businesses and assets
- Increased use of shipping vs other transport modes
 - Reduced infrastructure costs for Government

To provide coastal shipping services at a reasonable price for customers/consumers

- To create a business environment in combination with regulatory settings that makes Australian shipping competitive and sustainable

To secure the maritime skills base for the future

- Increased employment opportunities in the shore-based sector for ex-seafarers
- Increased activity/jobs in related industries (ship finance, insurance, repair and maintenance etc).
- Increased knowledge and know-how to operate ships
- Increased knowledge and know-how to operate shipping business / shipping contracts
- Increased employment opportunities at sea for Australian mariners

Requirements for Business	Requirements for Government
<p>Competitive fiscal regime</p> <ul style="list-style-type: none"> • Tonnage tax to offer tax efficiencies • Capital gains on vessels not taxed • Reinvestment of capital encouraged <p>Competitive operating regime</p> <ul style="list-style-type: none"> • Competent, responsive, proactive registry • Competent, responsive, proactive Flag State • Competitive crew costs <ul style="list-style-type: none"> ○ Mixed manning ○ Riding gangs ○ Competitive income tax regime for seafarers • Reliable supply of labour • Industrial harmony/stability 	<p>Competitive shipping services to move Australian cargo</p> <p>Secure a viable seafaring skills base into the future</p> <p>Increase transport efficiencies for Australia</p> <ul style="list-style-type: none"> • Increase modal share of shipping <p>Increase the participation of Australian's in international shipping markets</p> <ul style="list-style-type: none"> • Efficiencies to flow through to domestic sector • GDP/Balance of Payments benefits • Encourage Australian businesses to sell 'delivered' as opposed to FOB

This paper outlines five parts that seek to address the requirements for all parties. These parts are: Fiscal Environment, Second Register, Social Contract, Operating Cycle Costs and Cabotage.

Part 1 - The Fiscal Environment seeks a voluntary tonnage tax regime and income tax changes for seafarers. Those entities that choose not to opt in to a tonnage tax regime have access to accelerated depreciation.

Part 2 – The Operating Environment outlines the need for a Second Register to provide the shipping industry with a competitive and high quality option for registration under the flag of a nation with long standing maritime competence. The ability to employ foreign seafarers on these vessels is a key to being competitive.

Part 3 - The Social Contract obliges companies operating under the tonnage tax regime to undertake a predetermined amount of training. Changes to the existing training structure and the need for excess or overflow training on behalf of the broader maritime community are also outlined.

Part 4 – Operating Cycle Costs outlines the operating cost differential between Australian ships / crews and foreign ships / crews. Means to reduce the differential are briefly discussed as are the consequences if the operating cycle costs are not able to be reduced.

Part 5 – Any remaining issues not solved by the measures above will need to be addressed via the Cabotage requirements. To this end the measures to be introduced include the introduction of Second Register vessels into the permit regime and the inclusion of a trade exposure test as part of the public interest test for trades where permit application is not infrequent.

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1 PART 1 – FISCAL ENVIRONMENT

The operating environment for Australian shipping businesses is out of step with the environments provided around the world for shipping companies. Globally the environments could be categorised three ways:

1) Progressive

Include countries with very low or zero tax. For example, Singapore has special arrangements for shipping provided minimum local content requirements are met (such as minimum dollar spend – which are easily met by shipping companies). Hong Kong has no tax on overseas earning (very attractive for shipping companies) and a very flexible business registration/ownership environment. Canada has a zero company tax arrangement for international shipping activities.

2) Competitive

These regimes typically recognise that shipping is a global business. These countries provide differential corporate taxation treatment for shipping businesses to allow them to compete while retaining the national character/standards. Most of the European nations are included in this group where Tonnage Tax regimes are in place.

These arrangements have more restrictions than in Aggressive environments such as commitments for a number of years, business registration/ownership restrictions and an increased local content.

3) Protected/Constrained

These regimes treat shipping businesses the same as other business activities. In some cases the global nature of shipping is recognised through the establishment of protectionist regimes that only allow businesses from that country to undertake particular tasks (such as the USA where the Jones Act enforces a high level of USA content across a broad range of activities). Canada has a cabotage system not dissimilar to that of Australia, however the system is administered quite differently and the number of permits issued is a fraction of those issued in Australia.

ASA believe that Australia needs to move from the protected/constrained category. Our nearest neighbours geographically provide some of the most advantageous arrangements and many ASA Members currently operate in these regimes. A move toward becoming a progressive location would be supported by the shipowners.

However, it is understood that this might be a bridge too far and a move to a competitive regime might be a more palatable solution for the Government at this time. This being the case, a comprehensive set of measures that would move the shipowning/operating environment into a competitive regime has been outlined herein.

1.1 Tonnage Tax

Tax payable is based on the registered tonnage of vessels multiplied by a fixed amount of deemed profit per ton, instead of the actual accounting profits from the exploitation of a vessel.

1.1.1 Mandatory/voluntary

The scheme is voluntary – qualifying entities can either opt into the tonnage tax scheme or elect to remain outside the regime and be subject to the same corporate taxation arrangements as other companies.

Some tonnage tax arrangements require a whole of industry style approach – all in or none. This is considered too restrictive given the diversity of interests involved in the Australian context.

1.1.2 Method of calculating the tonnage tax

The following deemed daily profit figures apply:

Net tonnage of ship	Daily profit rate per 100 tons
0 – 500	\$1.30
500 – 25,000	\$0.90
Above 25,000	\$0.45

The tonnage categories steps envisaged for the Australian fleet are:

- Small vessels
- Up to handymax
- Larger than handymax

The deemed profit figures are based on UK tonnage tax figures, roughly converted to A\$ - see below for UK stages

Net tonnage of ship	Daily profit rate per 100 tons
0 – 1,000	\$1.80
1,000 – 10,000	\$1.30
10,000 – 25,000	\$0.90
Above 25,000	\$0.45

For a small vessel of 200 Net tons the chargeable profit for the year would be \$949.

For a vessel of 15 000 Net tons the chargeable profit would be \$50,005.

For a vessel of 50 000 Net tons the chargeable profit would be \$123,552.50.

These profits are then taxed at the corporate tax rate to give the tax payable.

200T vessel = \$284.70 Tax

15,000T vessel = \$15,001.50 Tax

50,000T vessel = \$37,065.75 Tax

1.1.3 Qualifying entities

Any legal entity subject to Corporations Law in Australia.

Some regimes allow foreign companies to participate in the systems they set up (this includes regimes that are not Tonnage Tax regimes such as those available in Hong Kong).

It is considered that this level of Australian content is appropriate.

1.1.4 Qualifying Activities

Businesses involved in:

- Maritime Transport – the transport of goods and persons by sea and the use of vessels to facilitate maritime transport (tugs, dredges, bunker barges).
- Maritime Operations – the use of vessels for the purposes of exploration, research, construction and storage.
- Maritime Crewing – provision of the workforce required to work the vessels involved in the above.

Provided that the following are conducted in Australia:

- Strategic Management, OR
- Commercial Management, OR
- Technical-nautical Management and crew management.

These are definitions ASA has developed following research and consideration of other regimes.

1.1.5 Qualifying vessels/ownership

Vessels undertaking a qualifying activity are qualifying vessels.

To qualify to enter the tonnage tax regime a shipping company must have a certain degree of ownership regarding the vessel.

- Owned or Bareboat Chartered
- Can charter vessels out on time charter and bareboat charter
- Time Chartered in (to level of 75% of fleet – the remainder must be owned or bareboat)

This is a common element of the Dutch and Norwegian models (used by a wide variety of EU countries).

The purpose of this element in other Tonnage Tax regimes seems to be to encourage an increase in the national flag by limiting the amount of time charters that can operate under the tonnage tax. The Government has not indicated that this is a key driver for them.

What this does do is enables tracking of which 'tonnage' (ship) is entered into the tonnage tax regime and which ones are not and are therefore subject to other tax arrangements (freight tax etc).

1.1.6 Guarantee period/Lock up period

The term of the rates outlined in section 1.4 will be fixed for a period of 10 years. There is no lock up period.

Flexibility of the arrangements will be critical to enabling new entrants to enter the industry and pursue operations in new trades.

Experience in other tonnage tax regimes is that companies are generally happy to remain in the system and only opt in and out when necessary (not because they are shopping around for a better deal).

Other regimes that have introduced tonnage tax regimes

1.1.7 Exit and Disqualification

See discussion under section 1.1.6. There are no restrictions or penalties on exiting the scheme or re-entering the scheme.

In many regimes exiting from Tonnage Tax regimes within the lock-up period incurs penalties.

In many regimes exiting the scheme results in a disqualification on re-entering the regime for 10 years or so.

For the reasons outlined in section 1.8, this is undesirable and unnecessary. Shipowners would prefer to stay because the scheme is a good one, not because they have been locked into it or there are penalties associated with leaving.

1.1.8 Capital Gains/Losses

Capital gains will be considered to be included in the Tonnage Tax regime.

Capital gains are treated in a variety of ways from taxed at full company tax rates, tax exempt and through the Tonnage regime.

Note also, roll-over-relief as outlined in Section 2 will enable the use of any profit from the sale of a ship to be reinvested.

1.1.9 Flag Requirement

Ships that are entered into the Tonnage Tax must be Australian Registered or Australian Second Register (except the Time Chartered vessels permitted).

Time Charter not applicable to flag requirements.

1.1.10 Ship management companies

See Qualifying activities.

A major matter for consideration in the Australian context is how businesses that use vessels as part of a supply chain of a larger operation can access the benefits of tonnage tax without coming up against problems related to transfer pricing.

Some businesses might need to be restructured in order to obtain the benefits of a tonnage tax. Many businesses are already structured appropriately for the reasons of complying with existing legislation.

1.2 Roll-over Relief

Tax on income from sale of vessels may be deferred for 6 years if replacement vessels are Australian Registered or Australian Second Register.

Roll-over relief allows shipowners to reserve profits from the sale of ships for a number of years on a tax-free basis, provided that these profits are reinvested. This is available in a number of countries.

This is a very effective means to enable shipowners to deal with cycles in the markets that influence investment in tonnage.

1.3 Other Taxes

Opting into the Tonnage Tax regime eliminates the other corporate taxes that would otherwise apply, including income tax, royalty withholding tax and freight tax.

1.4 Accelerated Depreciation

For businesses that do not opt into a Tonnage Tax regime a cap on the effective working life of 7.5 years is applicable.

Since not all business might choose to enter the Tonnage Tax regime a change to the depreciation rates for vessels would encourage reinvestment.

A cap of 7.5 years is in line with that provided in Australia to the heavy vehicle and aviation industries.

This equates to a reducing balance write off of 26% p.a. which is comparable to rates used in other nations (see below).

Depreciation 31.25% on the reducing balance basis. Maximum depreciation ratio over the period of 5 years after acquisition of new vessels is 94%. (France)

Depreciation 25% on the reducing balance basis. Maximum depreciation ratio over the period of 5 years after acquisition of new vessels is 76%. (UK, Germany)

Depreciation 30% on the reducing balance basis. Maximum depreciation ratio over the period of 5 years after acquisition of new vessels is 88%. (Denmark)

1.5 Royalty Withholding Tax

Royalty Withholding Tax should be removed from bareboat charters to Australian resident companies.

A bareboat charter enables an Australian resident company to operate a ship with significant Australian content (such as crewing and flag) and control without the possible risk associated with large capital expenditure associated with ship ownership.

Bareboat charters to Australian companies attract Royalty Withholding Tax of between 10 – 30%. This tax is not payable for ships operating under permit or time charter, which generally have a high level of foreign content and control.

Amendments to Tax ruling TR2003/02 and subsequent tax office advice are required to enable ship operators to pursue options that are advantageous for the Australian industry and commercially sensible. This would mean removing RWT from bareboat charters.

Methods of acquiring vessels

Shipping providers require equipment (ships) to transport goods.

Acquiring ships can be facilitated in a number of ways:

- **Direct ownership**, where the shipping provider purchases their own ship, where the shipowner may then operate their own vessel and provide operational management of the ship, or the ship owner may choose to charter their ship out.
- **Chartering ships** – the process of ‘hiring’ a ship from the owner to carry cargo.

The main categories of ship chartering are:

- **Voyage charter** – where the ship is chartered to transport a specific cargo between a loading port and a discharge port, charged at per tonne rate.
- **Time charter** – where a ship is chartered from the owner for an agreed time period for an agreed daily or monthly rate (similar to a hire car arrangement).
- **Bareboat charter or Demise charter** – where the shipowner gives the control of the ship to a charterer, who will then operate the ship during the agreed period as if he owned it. The charterer will be responsible for the repairs and running costs, the crewing, insurance, and may even paint the ship in the company's own colours.

There are a number of reasons why direct ownership is not always the most desirable approach, such as the requirement for large capital investment, possible limited time requirement of shipping task and also timing in relation to market forces, especially if new building is required.

A shipping provider that does not want to own a vessel outright can utilise a bareboat charter and take advantage of the control this form of charter gives. Through a bareboat charter an Australian resident company can increase Australian content and control and reduce the possible risk associated with large capital expenditure.

The Implication of Chartering Choices

Tax Ruling TR2003/2 was released on 14 May 2003 regarding the royalty withholding tax implications of ship chartering arrangements. This Ruling considered the liability to pay royalty withholding tax (RWT) arising under the *Income Tax Assessment Act 1936* (ITAA 1936) in respect of payments made for the chartering of ships. Further, the Ruling considered the question of whether a payment under a charter party constitutes a 'royalty' (as defined in the ITAA 1936) being a payment for the 'use of, or the right to use any industrial, commercial or scientific equipment'.

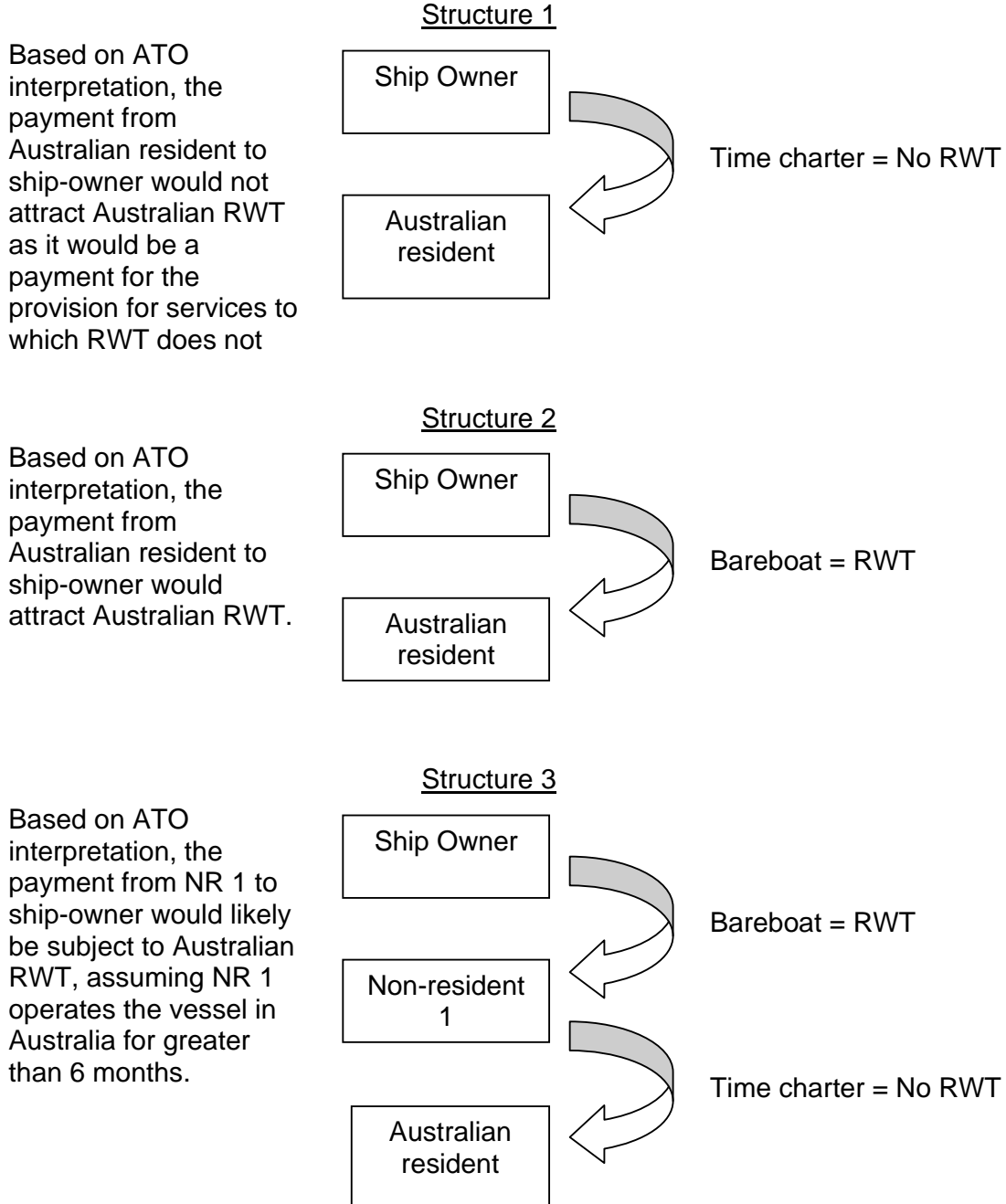
RWT is currently payable at the default rate of 30% on the gross amount of each taxable payment, reduced to 10% under most of Australia's double Tax Agreements.

It is a tax aimed at the non-resident beneficiary of the payment. However, the Australian resident charterer will be obliged to deduct this tax from gross charter payments and remit this to the ATO. Worldwide, Australia does not have Double Tax Agreements with the majority of ship owning nations.

In Summary, the RWHT ruling consists of the following:

- Voyage charters are exempt from RWT
- Standard-form time charters (without substantial amendment) are exempt from RWT
- Bareboat charters are subject to RWT
- Tailored time charter arrangements or standard form arrangements that have been varied will be subject to individual review by the ATO. This review will look to the nature of the contractual arrangements and the relationship between, and responsibilities of both charterer and shipowner.

Diagrammatic representation of Charter Structure and relation to RWT



A company considering their vessel usage options will consider the total cost. Options that do not attract RWT are therefore more attractive. These options are:

- Use a foreign shipping company (eliminate the Aust resident)
- Use a voyage or time charter

A bareboat arrangement would increase the level of Australian content and control more than the above two options.

A Commercially Viable Operating Environment

Where it is not desirable for an operation to 'own' a ship outright, for reasons outlined earlier, the option to bareboat charter a vessel needs to be available. However the 30% tax payable makes this proposition economically unviable.

Bareboat chartering is an essential option for shipping businesses. The ability for a company to offer an economic business model utilising a bareboat charter increases a company's opportunity to enter the market.

Efforts to rebuild the Australian industry need to ensure that all arrangements available to ship operators are feasible (direct ownership, voyage, time and bareboat charters). In order to increase the Australian content of shipping activity bareboat charters should be promoted.

An Australian operator will generally add the 30% RWT on top of the charter fees, as under standard charter agreements, the shipowner is entitled to the agreed charter fee after the deduction of any taxes. This increase therefore makes it difficult for an Australian operator to offer commercially viable bareboat charter agreements.

Recent Events

Recent events concerning vessel replacement options have, once again, raised the issue of RWHT. Australian ship operators would prefer to utilise a bareboat charter to increase the level of Australian content involved with the ship and to increase the control exercised by the Australian company. Application of RWT to bareboat charters makes bareboat charters uncompetitive with time charters and permit ships. Australian operators are therefore encouraged to adopt options that reduce the Australian content and level of control including the use of vessels under Permit.

1.6 Seafarers Income Tax

Australian officers are cost competitive with their international counterparts but for the income tax payable by Australian seafarers.

An adjustment to the taxation arrangements for Australian officers would see these professional seafarers made cost competitive with international seafarers (officers) serving in international trades and would increase the opportunities to place Australians for training in international trades.

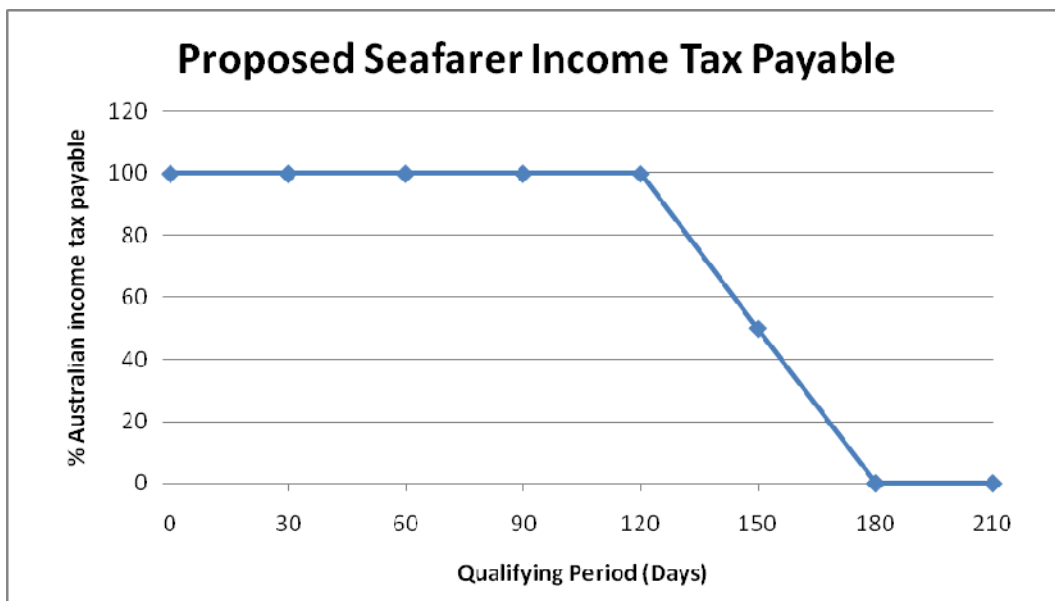
Australian seafarers should be taxed according to the following sliding scale:

“Qualifying Period” = Time spent on a qualifying ship:

Less than 90 days – full Australian income tax payable

Between 120 and 180 days - see graph below.

Over 180 days – zero Australian income tax payable



A qualifying ship is:

A ship that operates outside of Australia for [the majority of the time] [at least 180 days each year].

Qualifying ship?

Need to be able to find a solution that is:

- a) good for Australian companies engaged in partially international trades;
and
- b) good for Australian seafarers working overseas.

Shipowners see it as important to permit flexibility in the deployment of the seagoing workforce so that they may be able to be moved amongst a fleet of vessels without affecting their tax status.

Likewise to enable flexibility in the operation of vessels it is important that ships conducting a mix of international and coastal voyages do not incur seafarer income tax for part of the voyage.

Other options considered included a destination to destination basis (see description below). It was determined that this would be administratively cumbersome and very restrictive in terms of flexibility.

DESTINATION TO DESTINATION BASIS

Time out of country is exempt from tax, calculated on destination to destination basis

e.g.: Singapore to Brisbane – exempt
Brisbane – Sydney – not exempt
Sydney – Hong Kong – exempt
Hong Kong – Singapore – exempt

Or

Dampier – Offshore installation (within EEZ) – not exempt
Offshore installation – Singapore – exempt

APPLICATION ONLY TO INTERNATIONAL OPERATIONS

If seafarer tax changes only applied to working 'internationally' one consequence would be that, in combination with the tax treatment by other nations, for the shipowner it is more cost effective to employ, for example, UK nationals in Australia and Australian nationals in the UK.

This way both nationalities are working overseas and hence are exempt from their respective income tax regimes but neither are working at 'home'. This may be seen as counterproductive and a broader application to the income tax exemption could be considered to address this.

What happened to requesting changes to s. 23AG?

Amendments to section 23 AG of the Income Tax Assessment Act have long been sought to provide Australian seafarers with the same treatment as other Australian workers overseas.

Other nations, including UK, Germany, Netherlands, Denmark have shipping industry specific measures for the treatment of income tax for national seafarers.

In considering measures that would be required for Australian seafarers to compete in the global shipping environment – including Australian international trades – it would be necessary to extend amendments to Australian law beyond what 23AG offers.

The restriction 23AG imposes is that if serving on a ship that trades to/from Australia then every time that ship enters Australian waters the qualifying period out of the country re-sets (i.e. it is not cumulative time out of the Country) under the provisions of s. 23AG.

Employer vs Employee obligation to manage tax?

In the UK the obligation to manage income tax falls on the employee. If an individual will be signing off their ship a week short of the required 183 days they make their own arrangements to ensure that the required time away is met.

In the Australian context two scenarios are possible:

1) Australian employer.

In this scenario the employee is employed by an Australian company and works on vessels as determined by their employer – this could be vessels operating international or coastally or a combination of both.

In this scenario the employer will need to manage the tax payable depending on the time spent on various vessels. For example, if the seafarer spends 100 days on vessels operating internationally but then the employer deploys them to work on a purely coastal operation the employer will need to ensure the tax payable is included in the employees pay structure.

2) International employer.

In this scenario the employee is employed by a foreign employer and it is up to the individual to manage their own qualifying time working overseas etc. The wage rate the individual has accepted as payment will reflect their expectations regarding whether they qualify for exemption or not.

2 PART 2 – Operating Environment

The objective of the Australian Second Register is to provide the shipping industry with a competitive and high quality option for registration under the flag of a nation with long standing maritime competence.

The Australian second register (ASR) combines the advantages of being located in an industrialised nation with competitive conditions, rules and regulations.

2.1 Flag & Registration

Ships registered in the ASR fly the Australian flag and are subject to Australian jurisdiction. Australia's ordinary shipping legislation applies to them with some exceptions and special rules specific to the ASR.

Australia's comprehensive code of maritime law gives creditors the assurance that it represents a secure and professional alternative. Australian law is recognised in the maritime related field as sophisticated and predictable.

2.2 Exceptions and special rules

The minimum safe manning on ASR vessels will be determined in accordance with international conventions and Australian law. Operational requirements for manning will be determined by the ship operator/owner.

There is no restriction on the employment of non-Australian seafarers on ASR vessels.

Seafarers serving on ASR vessels are to be covered by collective agreements on wages and other conditions and may be signed by Australian or foreign unions. The unions must be bona fide.

Seafarers serving on ASR vessels are not covered by the Australian Workplace Relations Act (Fair Work Bill) or Maritime Industry Seagoing Award. The wages payable must comply with international standards (ILO Minimum Wage, IMEC agreements etc). Conditions of work must be in accordance with the ILO Maritime Labour Convention.

Workers compensation coverage will be that provided under P&I insurance (the Seacare Act does not apply).

Visas will be made available such that crew on ASR vessels are able to work in Australia.

3 PART 3 - Social Contract

In order to meet the objectives of all parties, the efficiencies that the Government puts in place for the industry must also result in the objectives of the Government also being met.

3.1 Training Requirements - Seagoing

Companies with vessels [entered into the tonnage tax regime] [entered on the Australian Register or the Australian Second Register] must make available berths and sufficient supervisors to train Australian trainees/students.

The training requirement need not be linked to the Tonnage Tax. Businesses not electing to operate in the tonnage tax regime will have access to accelerated depreciation/cap of effective working life and it follows that 'social contract' requirements should apply to all incentive regimes.

The training need not occur on every ship but rather the obligation falls on the company which must ensure the required training is conducted across their entire fleet. This could be done with a single training ship or with a number of places on each ship – the company can choose what would suit them best.

The number of trainees/students/cadets at any given time must be x% of the [safe manning certificate] [operating crew complement]. This is not a per annum figure this is an overall figure – i.e. could have a 2nd year trainee engineer, 3rd year cadet deck officer and a trainee IR.

Detail that would need to be determined – what % training?

- Say Safe Manning Certificate = 17 pax.
- Assume two crew system, overall manning requirement per vessel = 34pax
- Say, training one in each department = 3 pax
- Equals approx. 9% of total crew complement required
OR 18% safe manning certificate

3.2 Overflow Training

Training according to the above will be sufficient to meet the needs of those undertaking the training (operating ships) however it will not be sufficient to meet the needs of the broader industry.

There is no source of reciprocal training for marine qualifications – this makes the marine qualifications and issues surrounding obtaining them different to other sectors.

Shipowners may choose to train in excess of the above however the costs in doing so much be borne by some third party(s).

3.3 Training Provision

- Make Maritime Training 'main stream'
 - Ability to undertake training without company sponsorship
 - Course work components to provide nationally recognised qualifications (so the student has something even if they don't get the seetime)

Training costs are high for marine qualification due to the cadetship / traineeship approach used by shipping companies both within Australia and overseas. The creation of an employment relationship at the very early stages of training by its very nature creates a cost imposition that most, if not all, other industries do not face.

For Australia to grow the skills base required for the broader industry the employment relationship for all 'students' cannot continue.

Altering this relationship for a training regime that is largely based in a 'workplace' (gaining sea time on ships) is something that requires further consideration.

Some employers maintain that they wish to continue with the existing cadetship/ traineeship approach for a variety of reasons including building company culture etc.

This proposal in no way limits the ability for this to occur. What this proposal does do is makes this approach the exception rather than the rule.

For example, a law student might be lucky enough to obtain a position in a graduate program with a firm that will pay expenses – but many will not and that is considered to be quite normal.

- National approach to funding the work experience component of STCW training
 - National VET funding rather than state based distribution of funds
 - Work experience elements (sea time) to be considered part of course content and therefore attract government funding (HECS/HELP/etc)
 - External funding to be provided for overflow workplace training (over and above a company's own needs)
- National coordination of the infrastructure / resources to conduct maritime training
 - Government involvement (via existing departments/structures) along with the RTOs
- National coordination of manpower planning for roles requiring 'maritime qualifications'
 - Including the establishment of the actual mobility or turnover rates for the broad industry of individuals with these qualifications to determine training requirements

A level of oversight and coordination of maritime training would be valuable in these areas, perhaps through a National Maritime Training Authority.

3.4 Training considerations to be avoided

- Union driven training funds or training providers
- Reinstitution of tripartite discussions on training provision and funding
- AMSA's role decreasing in the areas of:
 - the approval and audit of courses
 - the conduct of oral examinations to determine competency for STCW qualifications
- Cadetships or other employer/employee relationship included in legislative instruments (such as marine orders).

4 PART 4 – Operating Cycle Costs

The largest element of cost differential between 'Australian' ships and foreign ships is the operating cycle costs – that being the combination of crew cost and maintenance and dry dock costs.

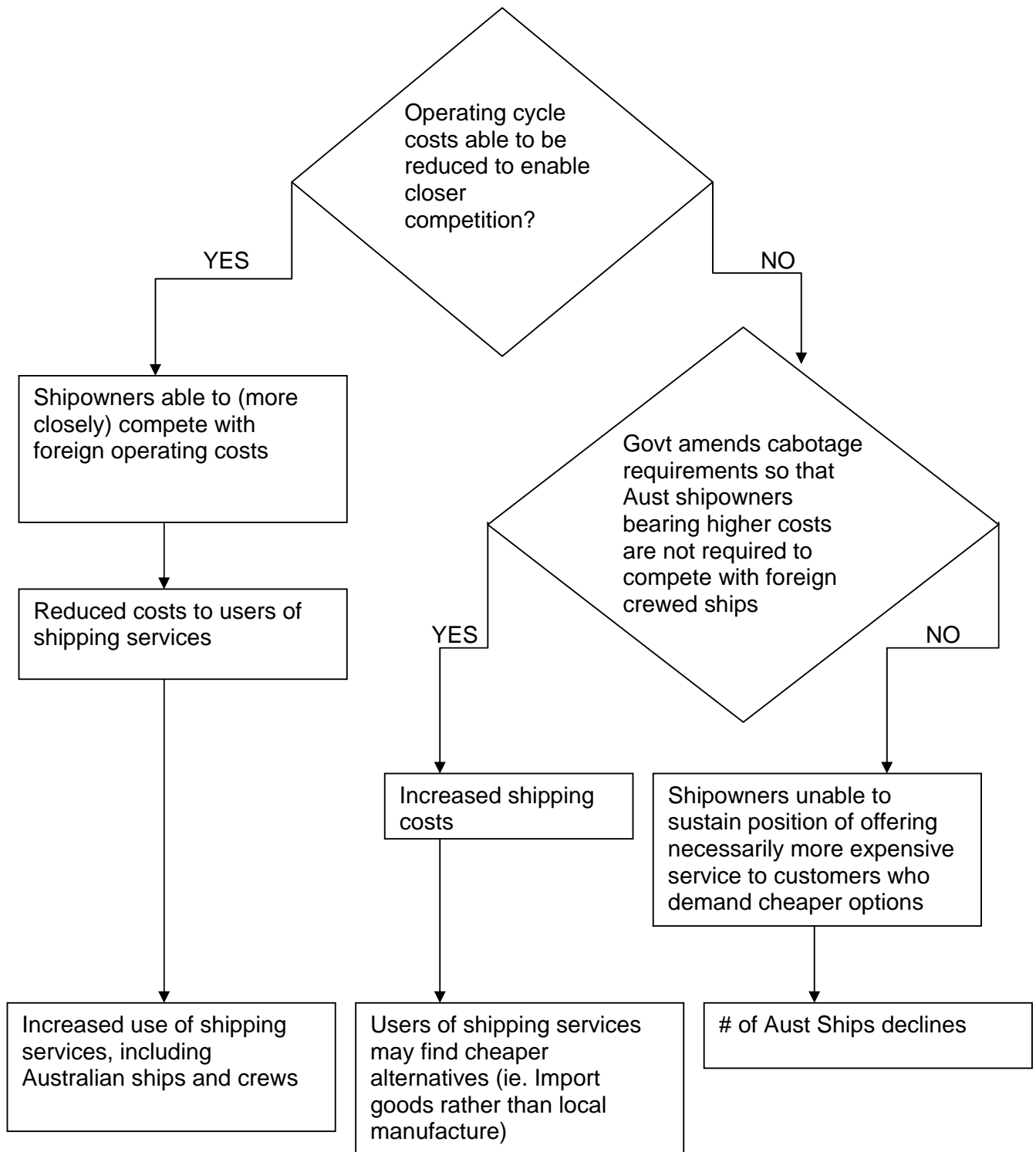
The level of maintenance performed on Australian crewed vessels does not match the level of maintenance performed on foreign vessels. This lack of in-service maintenance increases the dry dock costs by between \$2 – 4 million (or up to \$800,000 per year). The generally held view is that this can be ameliorated via the use of riding gangs or flying maintenance squads. These people are placed on board ships to undertake maintenance work for (usually) short periods of time and are additional to the regular operating crew.

The crew costs differential has been established at \$3 million, based on figures from March 2006. Since 2006 the differential is likely to have widened further due to pay rises in the Australian context outstripping those offered internationally.

Total employment costs could be reduced by:

- a reduction in the actual overall number of people employed (per berth)
- flexibility in the utilisation of the workforce
- some changes in relativities between employment ranks
- manning levels determined based on operational not political considerations
- reasonable community standards to apply to areas of employment overheads
- international shipping community insurance standards to apply

As noted above, a suite of options are available to lower the differential in operating cycle costs. The consequences of being able to lower the operating cycle cost of Australian crewed ships is outlined in the attached flowchart. Reaching any outcome would require the input of the shipowners/employers, the unions and the Government, since government decisions are key to the outcomes.



5 PART 5 - Cabotage

Objective: A regime that uses Australian vessels supplemented by foreign vessels to cater for short term capacity gaps and irregularities.

There needs to be the right measure of “carrot” to attract businesses to use Australian ships and “stick” to prevent businesses from avoiding using foreign ships.

The carrot is provided by way of the measures put in place for shipowners (tonnage tax etc) who will have the effect of lowering the operating cost of Australian vessels and thereby make them more competitive with foreign vessels.

The stick is ensuring that robust tests are in place to determine what outcome is actually in the public interest. This is provided by way of a trade exposure test being applied as part of the public interest test.

5.1 Licenses

Licenses restricted to Australian flagged vessels or vessels where the majority of the crew are Australian nationals.

5.2 Permits

Permits will be renamed Temporary Admission License to reflect the intended nature of use of these vessels.

The Australian Second Register would involve the creation of a new permit which would have preference over foreign flagged permit vessels. The rationale for this preference is that there are national benefits in using a vessel with a greater Australian content (Balance of Payments etc).

Serial or consistent use of permits in a particular trade should be subject to a trade exposure test as part of the existing public interest test.

A trade exposure test would require the cargo interest to present a comprehensive case that demonstrated that paying an increased shipping cost to use Australian providers would leave the business trade exposed and encourage them to move offshore with flow on job losses from that business etc. The onus is on the applicant to justify the need to use a permit vessel.

This would then be weighed against the shipping costs being paid to a foreign entity and leaving the country versus paying them to an Australian entity and supporting Australian shipping jobs (both ashore and at sea).

Such a test has been developed for the Government’s Carbon Pollution Reduction Scheme and centres around the ability for Australian businesses to pass on the increased costs of being part of the CPRS. (See White Paper, Section 12.3.1).

The costs associated with applying these tests would be borne by the permit applicant.

For each trade therefore the public interest test would include the following:

TRADE EXPOSURE AND PUBLIC INTEREST TEST

Cargo Interest

- Commodity type
- Market Share
- Transparency of international pricing
- etc

Use Australian Ship

\$ +

Positives

Shipping payments stay in Aust
(GDP/ Balance of Payments)

Shipping jobs stay in Australia

Negatives

Price of product increases –
consumer pays more
(GDP / Balance of Payments)

Cargo interest jobs leave
Australia

Overall impact on jobs

- Numbers
- Location
- Strategic importance

Use Foreign Ship

\$

Positives

Price of product decreases –
consumer pays less
(GDP/ Balance of Payments)

Cargo interest jobs stay in
Australia

Negatives

Shipping payments leave Aust
(GDP / Balance of Payments)

Shipping jobs leave Australia

Overall impact on jobs

- Numbers
- Location
- Strategic importance

The Department would have a role in deciding whether or not to issue temporary admission licenses/permits.

ASA Member Companies...



ANL Container Line



ASP Ship Management



BHP Billiton



Bluescope Steel



BP Australia



Caltex Australia



CSR Shipping



Farstad Shipping (Indian Pacific) Pty Ltd



Jepsens International (Australia)



North West Shelf Shipping Service Company

ASA Member Companies continued...



PB Towage



P&O Maritime Services



Perkins Shipping



Queensland Alumina Limited



Rio Tinto Marine



SeaRoad Shipping



Shell Tanker Australia



SVITZER



Swire Pacific Offshore



Teekay Shipping (Australia)



Tidewater Marine Australia



The Shell Company of Australia

