

AIMPE



Submission

Australian Institute of Marine and Power Engineers

&

Australian Maritime Officers Union

Joint Standing Committee on Foreign Affairs, Defence and Trade

Inquiry into the implications of the COVID-19 pandemic
for
Australia's foreign affairs, defence and trade

Background

The Australian Institute of Marine and Power Engineers is the registered organisation which represents qualified Marine Engineers throughout Australia. AIMPE came together as a national body in 1881 after several years during which local organisations were formed in the various colonies of Australia and New Zealand. AIMPE members operate, maintain and repair marine vessels of all sorts including commercial cargo ships of all types and sizes as well as vessels dedicated to the offshore oil and gas sector, tugboats, dredges, ferries, defence support craft, research vessels and Border Force vessels.

The Australian Maritime Officers Union is the oldest union continuously registered under the Fair Work Act 2009 and represents the professional and workplace interests of Ship's Masters (Captains) and Deck (Navigating) Officers in the maritime 'blue water', offshore oil and gas, ferry, dredging and tourism sectors, Marine Pilots, Coastal Pilots, tug Masters, bunker (refuelling) tankers, Stevedoring Supervisors, Port Services officers, vessel traffic services (VTS)/harbour control officers and professional/ administration/ supervisory/technical staff of port corporations and maritime authorities

The unions appreciate the opportunity to make a submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade Inquiry into the implications of the COVID-19 pandemic for Australia's foreign affairs, defence and trade.

Terms of reference

The Joint Standing Committee on Foreign Affairs, Defence and Trade will inquire into the strategic implications of COVID19, having particular regard to:

- Implications for Australia's Foreign Affairs, Defence and Trade policy, particularly with respect to strategic alliances and regional security;
- Threats to the global rules based order that emerged due to actions by nation states during the pandemic, and how such threats can be mitigated in the event of future crises;
- The impact on human rights;
- Supply chain integrity / assurance to critical enablers of Australian security (such as health, economic and transport systems, and defence);
- What policy and practical measures would be required to form an ongoing effective national framework to ensure the resilience required to underpin Australia's economic and strategic objectives;
- Any related matters

Summary

The COVID-19 pandemic has required unprecedented action from Governments across Australia and around the world including at times severe restrictions on gatherings and movement of people.

Through the first six months of the pandemic Australia's international and domestic trade has, with some exceptions continued unabated. This is particularly so in relation to maritime trades excluding the cruise ship and tourist vessel sectors.

In relation to international shipping and Temporary Licence coastal shipping this has largely depended on international seafarers working extended duty periods. For international seafarers this has extended out to 14-month continuous duty periods on their ships. This is not sustainable.

This situation has exposed the heavy over reliance of Australia on foreign shipping operators. Australia no longer has Australian ships to service most of our international trades and our coastal shipping requirements. Instead Australia relies on foreign shipping to carry all of our imports and all of our exports [bar 4 LNG tankers]. Australia also relies on foreign shipping to carry a large percentage of our domestic, coastal cargoes.

AIMPE & AMOU submit that in the sector of shipping services the COVID-19 pandemic has exposed the fact that Australia has become too reliant on foreign shipping services. Australia needs to start a process of re-establishing some Australian shipping capability and AIMPE and AMOU suggest that the key strategic area where this process should commence is in the area of petroleum tanker shipping.

AIMPE and AMOU propose that the Australian Government should call for expressions of interest in the operation of six petroleum tankers with modest Government support to provide an Australian flag fuel transport capability and in addition to commence the renewal of commercial maritime training for young Australians to begin to instil the element of sustainability into the maritime infrastructure.

COVID-19 and the Australian Maritime Industry

The National Cabinet recognised maritime personnel [non-cruise] as critical personnel and States and Territories have generally provided maritime personnel with class exemptions to enable the continuation of maritime operations. However, WA insisted on a hard border closure from early April and required 14-day quarantine for those who were permitted to enter the State. In addition, other States required quarantining for international seafarers flying into Australia to join their vessels.

Subsequently, the second wave of contagion in Victoria has caused more restrictions to be imposed. International flight availability has been drastically reduced to stop the spread of the virus which has compounded the problems for international seafarers. This includes international seafarers working on Temporary Licence ships engaging in coastal trades.

Temporary Licence shipping has in the last decade or more effectively replaced Australian flag ships with Australian crews in many sectors of the coastal trades. This process has been driven by the economic factors which favour international shipping: – low cost flag of convenience registration; low or nil corporate taxes in countries of registration; low or nil seafarer taxation; the facility to choose any nationality of generally compliant seafarer; and low international rates of pay and conditions.

The consequences of this displacement have included: a dramatic decline in employment of Australian seafarers in coastal shipping; a parallel reduction in the training of new young seafarers; and a loss of Australian flag shipping capacity.

AIMPE and AMOU submit that this outcome is not consistent with a strong independent economy having the capacity to endure a strategic crisis. It is submitted that an Australian flag shipping capability with Australian seafarers is not just a desirable objective but a strategic necessity for a vast island continent.

An Australian Security Fleet

AIMPE and AMOU submit that one proposal that meets this objective is the concept of an Australian Security Fleet. Fuel security and workforce development are issues that could both be addressed by the establishment of a small group of tanker ships with the following features:

Owned and operated by commercial shipping companies;

Australian registered and holding a General Licence to trade on the coast;

Australian crewed with additional training obligations; and

Contracted to the Federal Government.

A small group of tanker ships probably means six tankers; and any contractual consideration would necessarily be modest say \$5 million per annum per ship. Below is some more detailed discussion of these broad features.

Owned and operated by commercial shipping companies

The Australian Government has indicated that it has no interest in re-entering the shipping industry as a vessel operator – especially not in the area of commercial trading ships. Yet there is real community concern about Australia's near total reliance on foreign shipping to manage our national liquid fuel demands.

The solution to this problem would be for there to be a number of nominated vessels owned and operated by Australian companies which could carry out this task. Long term chartering of ships would be a satisfactory alternative structure which would also deliver the required degree of security but in that case the charterer should be required to be an Australian company of substance so that the Government and the Australian community can have confidence that the arrangement will not collapse.

Since 2016 Australia has not had a major petroleum tanker in the coastal fleet and so all of the coastal cargoes of both crude oils and petroleum products have been carried by foreign flag ships using Temporary Licences.

In 2012 there were still 5 tankers operating on the coast with Australian crews – Alexander Spirit, BP Fidelity, BP Loyalty, Hugli Spirit and Tandara Spirit. One by one they were withdrawn from service and not replaced and so there was no alternative available when the applications were made for Temporary Licences.

There have been 2,442 petroleum cargoes carried on Temporary Licences vessels between Australian ports from 1st July 2012 to 20th July 2020. That averages out at roughly 300 voyages per year. However, there were 362 Temporary Licence voyages by foreign tankers in 2018 - two years after the last Australian crewed tanker was withdrawn. There were 367 such voyages by foreign tankers in 2019.

In terms of the volumes of cargoes carried by these foreign tankers, there has been 35,097,556 tonnes of petroleum carried on coastal voyages under Temporary Licence since July 2012. That's an average of over 4,350,000 tonnes of cargo p.a. on coastal voyages. The total amount of product and crude carried by foreign tankers between Australian ports was 4,565,426 tonnes in 2018 and there were 5,273,866 tonnes of petroleum [product and crude] carried by foreign tankers between Australian ports in 2019. The amount of petroleum products being moved around the Australian coast by foreign tankers is substantial and was increasing prior to the COVID-19 pandemic.

In the first six months of 2020 the total number of Temporary Licence voyages by foreign petroleum tankers was 144 voyages and the amount of petroleum cargo carried was 2,171,859 tonnes. So, despite the reduction in fuel consumption due to the movement restrictions imposed to control the spread of the virus there is still a significant dependence on foreign ships to carry coastal petroleum cargoes.

There have been five main players involved in applying for Temporary Licences for these coastal tanker trades since 2012:

Ampol Singapore Trading Pte Ltd

BP Australia Pty Ltd

Caltex Australia Petroleum Pty Ltd

Mobil Oil Australia Pty Ltd

Viva Energy Australia Ltd

Note: Caltex has ceased applying for Temporary Licences since 2015.

There is a substantial volume of petroleum trade being moved around the Australian coast - sufficient to support an Australian flag, Australian crewed tanker fleet but the existence of the unrestricted access to Temporary Licences (combined with the absence of any major Australian flag tanker ships) continues to see these cargoes being dominated 99% by foreign flag, foreign crewed ships while the Australian maritime industry languishes.

Given south-east Australia's recent shortages of gas supplies – both for use as gas and for electricity generation – consideration should also be given to extending the proposed ship contracts to gas tankers. It is many years since the last Australian flag coastal gas tanker (MT Kelvin) was withdrawn from service. Kelvin carried LPG for ICI [now Orica]. LPG remains the major gas cargo that has been carried on the Australian coast by foreign ships under Temporary Licences. Since 1st July 2012 there have been 712 voyages carrying a total of 1,832,526 tonnes of gas – mainly LPG and ammonia.

The two major users of Temporary Licences for gas cargoes have been

Origin Energy Contracting Limited

Orica Australia Pty Ltd

Most of the LPG is carried for Origin Energy whilst most of the ammonia is carried for Orica.

With two LNG import terminals on the drawing board – one having received planning approval the other having applied for planning approval – it would be prudent for the Government to recognise that gas is another major contributor to Australia's fuel security and that coastal shipping of gas can only increase in coming years. Indeed, as arguably the

cleanest burning hydrocarbon fuel, there is a strong likelihood that gas fuels will form an increasing proportion of Australia's fuel sources over the next few decades.

Australian registered and holding a General Licence to trade on the coast

AIMPE and AMOU submit that the ships proposed in this submission should be Australian registered and should each hold a General Licence under the Coastal Trading legislation. This guarantees that vessel safety standards would be subject to the full terms of the relevant Australian maritime safety legislation. The Australian Maritime Safety Authority (AMSA) would have flag state inspection and enforcement powers. The Australian Transport Safety Bureau (ATSB) would have investigation powers in the event of any incident.

The possession of a General Licence would allow the ships to carry any combination of cargoes between any set of ports [or locations] around Australia without being required to seek additional authorisation from the Department. At the same time this would not preclude international voyaging to secure and deliver petroleum from overseas locations to Australian ports.

The ability to undertake international voyages is potentially significant if there is at any point in the future a petroleum supply crisis either globally or in our region. In April 2020 the Federal Government announced that it had secured access to the US Strategic Petroleum Reserve. The US Department of Energy describes the Reserve as follows:

"The Strategic Petroleum Reserve is a U.S. Government complex of four sites with deep underground storage caverns created in salt domes along the Texas and Louisiana Gulf Coasts. The caverns have a capacity of 727 million barrels and store emergency supplies of crude oil owned by the U.S. Government. "

Source; <https://www.energy.gov/fe/services/petroleum-reserves/strategic-petroleum-reserve/spr-quick-facts-and-faqs>

Some caution does need to be exercised in relation to the US Strategic Reserve. It is a reserve of crude oil. Transportation of such reserves to Australia would require crude oil tankers as opposed to refined product tankers. There are no Australian flag crude oil tankers currently in operation.

The transit time through the Panama Canal and across the Pacific Ocean is substantial and is far greater than the transit time to the Asian refineries which currently supply much of Australia's refined product requirements.

If it was contemplated that the tankers should be subject to temporary requisition [or Government direction] in times of emergency to access the Strategic Reserve then this would have to be factored into any contract arrangements. For instance, some or all of the

contracted vessels would need to be crude oil tankers or combination crude/product tankers. It would also limit the size of the vessels to Panamax tankers (LR1).

Australian crewed with additional training obligations

Many stakeholders in the Australian maritime industry have expressed concern about the critical workforce development issues which are confronting the industry at the moment. The snapshot taken by the MIAL survey in 2018 should be regarded as a critical alarm about the risks to Australia of failing to plan for the renewal of the maritime workforce.

A key objective of this proposal is to provide more training opportunities for young Australians to obtain the necessary seagoing experience required to qualify for Certificates of Competency as Engineer Officers and Deck Officers. Such Certificates are issued by AMSA in accordance with the requirements of the international convention applying to maritime qualifications – the Convention of Standards, Training, Certification and Watchkeeping (STCW).

Progression from new entrant to the highest level of Certificate takes around 10 years for both Deck Officers and Engineer Officers. Any program which seeks to address the long-term supply of skilled maritime professionals for shore-based maritime occupations (e.g. Marine Surveyors, Harbourmasters and Pilots) would need to have a minimum 10-year time frame if it is to seriously address the workforce development issue.

One benefit of adopting this proposal in the coming months is that there are still senior Australian officers with Tanker endorsements who could operate these vessels and commence a major skills transfer to a young generation of Australian Officers. If the process is delayed there is a real danger that these Tanker endorsements will have expired creating another hurdle for any new operator.

Contracted to the Federal Government

The last 25 years' experience has demonstrated that low-cost foreign ships with foreign crews can deliver coastal cargoes around Australia. Whether operating with Single Voyage Permits or Continuing Voyage Permits prior to 1st July 2012 or with Temporary Licences since 1st July 2012, foreign ships with foreign crews have progressively replaced Australian ships and Australian crews especially in the tanker trades and in bulk trades.

The foreign flag ships with foreign crews do have a cost advantage. The reason for this cost advantage is due to a combination of factors but includes the lower corporate tax rates which apply to foreign companies (for example Singapore taxes maritime companies 0% tax on their corporate income) and lower personal income taxes for foreign seafarers (many maritime labour supply countries and OECD nations for that matter exempt international

seafarers from the payment of income tax – 0% personal tax). It is also true that Australian seafarers generally receive higher wages than foreign seafarers and that this is an element of the cost differential between Australian ships and foreign ships.

All of these factors contribute to a cost differential between Australian ships and foreign ships of between \$3 million and \$5 million per ship per annum. A Federal Government financial contribution in this order of magnitude should be sufficient to ensure that the commercial ship operator could substitute an Australian ship for a foreign ship without the need to increase freight rates for the customer.

Given the very modest size of this proposal [six ships], a training effort of just one trainee Deck Officer and One trainee Engineer Officer per ship per annum is simply not going to be sufficient to make a significant impact on the aggregate industry workforce figures. To intensify the training effort and increase the throughput of trainees, consideration could be given to having more than one trainee Engineer Officer and more than one trainee Deck Officer per annum on each of the ships. If this option is to be considered then accommodation capacity on board will also need to be taken into account.

Economic and employment impacts

It is obvious to all that the current financial base which applies to the Australian Shipping Industry acts as a positive disincentive to Australian shipping.

At present, every major national overseas flag operator benefits from various forms of assistance provided by its host nation. If Australia fails to provide similar assistance to its national flag operators, they will continue to be at a competitive disadvantage compared to overseas operators and will disappear from the Australian coast as mentioned previously in this submission with the five (5) tankers leaving the Australian coast for good. A free market does not exist in international shipping and a country's own coastal trade is its training ground, job market and infrastructural security mechanism.

Governments of most maritime nations (France, Germany, Denmark, Brazil, Greece, South Africa, Japan, Netherlands, Norway Sweden, United Kingdom and United States) provide considerable financial incentives to their flag vessels and that Australian shipping, far from being uneconomic, is attempting to operate under conditions of considerable disadvantage.

There would be substantial benefits from having six (6) tankers on the Australian coast. Using a rule-of-thumb estimate, we could say that every new Australian crewed tanker vessel introduced on the Australian coast would provide direct employment for 36 seafarers. Initially, the new vessels will be manned from either the ranks of the unemployed Australian seafarers or from transfers from shore-based industries.

However, the demand in the medium term will be met by the entry of new intakes who have undertaken Maritime training courses. Hence the introduction of six (6) new tankers will create direct employment opportunities for 216 maritime employees.

Of the estimated total wage bill of each new tanker, approximately 37% to 45% would be repaid to the Commonwealth Government in the form of tax payments. In addition, the respective State Governments would gain from increased payroll tax receipts. The Commonwealth will also benefit from consequential increases to company tax.

There will also be direct employment opportunities created in the managerial and administrative fields in the Australian Shipping companies. The additional volume of work will require additional human resources employees, clerks, etc.

There will also be indirect employment as a consequence of increased expenditure on consumables (such as stores, provisions, uniforms etc.). Such an increase in expenditure on consumable items will lead to multiplier effects within the Australian economy- all the way back to the nation's primary producers.

The current tendency is for Australian vessels to undergo their major dry docking overseas. However, there will be an increase in the demand for ship repair facilities for minor repairs to be provided by shore-based workers. No doubt, some of this work will require contract engineering. Increased Australian participation in shipping could also generate its own 'downstream activities' in ship repair and perhaps shipbuilding.

The method of providing trained new intakes into the shipping industry will create employment opportunities for more technical teachers and instructors. Personnel transferring from shore-based industries into the shipping industry will leave gaps which will create vacancies further down the line and create an opportunity for a new intake to enter the workforce.

There could also be increased activity in the insurance and financing fields which may create employment opportunities in those sectors.

The ship owners' profits would remain in this country and the Commonwealth Government would collect Company Tax. There would be a reduction in the nett invisibles outflow in the country's Balance of Payments. And there may be a reduction in welfare payments, if the opportunities created lead to the re-employment of maritime employees who would otherwise be unemployed.

The introduction of the six (6) new tankers will have vital considerations of national prestige and defence capabilities attached to an Australian Maritime Security Fleet. It will allow Australia a much greater degree of control of its own fuel security.

In summary, the introduction of six (6) tankers on the Australian coast would create direct employment opportunities for members of the shipping industry and at the same time create employment opportunities for people engaged in supportive and associated fields.

There will also be maintenance and growth in skills in the shipping industry, thus increasing the nation's human resources. The demand for additional jobs will lead to the training of young Australian seafarers.