



Australian Government

Department of Infrastructure and Transport

REFORMING AUSTRALIA'S SHIPPING

REGULATION IMPACT STATEMENT

**A framework
to revitalise the Australian shipping industry**

August 2011

EXECUTIVE SUMMARY

On 13 August 2010 during the Federal election campaign the Minister for Infrastructure and Transport, the Hon. Anthony Albanese MP, announced that a “re-elected Gillard Government will introduce measures to strengthen Australia’s shipping industry for our economy and our environment”.

On 1 December 2010, the Minister released a public Discussion Paper that outlined a framework for reform based around the objectives of:

- ensuring Australia has a viable shipping industry, able to provide adequate coastal shipping services at a reasonable price for customers/consumers and which reinvests in its ships when they reach the end of their economic lives;
- ensuring Australian shipping maintains and potentially grows its share of the national transport system in order to meet the growing transport task efficiently, effectively, safely and with the least impact on the environment;
- providing opportunities to increase Australia’s participation in international shipping, reflecting the significance of shipping to our trade base and the links between strong domestic and international sectors;
- creating more opportunities for Australian seafarers; and
- securing the maritime skills base necessary to provide regulatory and land based maritime services as well as the sea based services.

The revitalisation of Australian shipping policy is one of three elements in the Government’s broader reform program for maritime policy and regulation, the other initiatives being a rewritten *Navigation Act 1912* and the Council of Australian Governments’ initiative to create a single national jurisdiction for the regulation of commercial maritime safety.

The Issues

The framework for reform the Minister has announced followed an Inquiry into coastal shipping policy and regulation by the House of Representatives Standing Committee for Infrastructure, Transport, Regional Development and Local Government. The Committee’s Report, *Rebuilding Australia’s Coastal Shipping Industry* (the Parliamentary Inquiry) was released in October 2008 and detailed issues raised in submissions to the Parliamentary Review (found at www.aph.gov.au/house/committee/itrdlg/coastalshipping/subs.htm). They can be grouped into three categories:

Strategic issues

- Declining and ageing coastal fleet;
- A lack of policy integrity as reflected in legislation that has contributed to the replacement of Australian licensed ships with foreign ships operating under permits;
- Significant cost disadvantage for Australian registered vessels;
- A lack of fiscal incentives to invest in Australian registered ships; and
- High level of transport industry competition and shipper anxiety over potential cost increases from tighter cabotage leading to possible mode switching and potential relocation of some production offshore.

Administration of the Regulatory Framework

- Legislation is dated and does not reflect contemporary practices; and
- Increased reliance on Ministerial Directions to support the Act and Regulations with potential for increased appeals against administrative decisions.

Maritime skills shortages

- An ageing workforce combined with insufficient recruitment and training;
- Likely flow on effects of an ageing workforce to shore based jobs that rely on the maritime industry for recruits;
- Potential limits to Australia's ability to service international and domestic trade efficiently resulting from an inadequate pool of maritime skills.

The Reform Proposal

The Minister's Discussion Paper of 1 December 2010 proposed a number of reform measures that address the issues identified by the House of Representatives Committee and that will work to reverse the decline in the Australian registered fleet and the pool of Australian maritime skills. Those measures are:

- regulatory reforms to modernise the current legislation and provide a more robust regulatory framework for ships and shippers;
- establishing an Australian international register to support Australian shipping in international trades,
- delivering taxation incentives to encourage investment in Australian ships and skills development; and
- a coordinated approach to develop workforce capability across the whole of industry will build a maritime skills base into the future.

1. Regulatory changes

Part VI of the *Navigation Act 1912* currently focuses on the issue of licences and permits for particular ships and/or particular voyages. It provides an inbuilt preference for licensed vessels to carry coastal cargo, but allows the issue of coasting trade permits to unlicensed vessels when there is no Australian Licensed Operator (ALO) or ship available or where the service provided by licensed ships is not adequate to the needs of shippers. Over time the provision for coasting trade permits has become a vehicle to subvert the preference for Australian licensed operators through a process of regulatory drift that has accelerated in the last decade to allow increased foreign shipping to access the Australian domestic market.

The reform of Part VI aims to stem this regulatory failure by re-affirming the basic principles of preference for Australian licensed vessels as in the current legislation. At the same time it will strengthen support for Australian shipping operators in order to level the playing field between domestic and foreign shipping, while still enabling the participation of foreign operators in the movement of coastal cargo. New legislation incorporating revised licensing arrangements would focus more on the policy intent of building a viable and revitalised Australian shipping industry in order to maintain a domestic shipping industry that will not only be able to compete in the domestic market but function as a source of maritime expertise on which our regulatory agencies and port operators depend. Without action to address this declining industry Australia will find itself without a domestic shipping industry and perhaps more importantly without the means to facilitate and regulate the exports on which its economy depends.

Licences

The issue of a licence to operate in the coastal trade would result from the assessment of an applicant's proposed shipping activities against the broad objectives set out in the Act. Assessment would result in the issue of one of three licences to access the coastal trade, each of the licences being conditional:

- General Licences would allow unrestricted access to the coastal trade operating under one of two sets of operating conditions:
 - Australian registered vessels could access coastal trade for a period up to five years, reporting annually on their operations. Australian registered vessels could access the proposed taxation incentives.
 - Foreign registered vessels that employ Australian crew and make a commitment to train Australian seafarers as part of their operations. This licence would be renewably annually. The Australian taxation incentives would not be available to those operators.
- A new category of Temporary Licence would provide time, trade and voyage limited access to the coastal trade. A Temporary Licence could be issued to enable foreign ships to carry specified trades on nominated ships for up to a maximum of 12 months. A limit on the

number of voyages per Temporary Licence would also be applied; additional voyages could be granted subject to a further application process

- A new category of Emergency Licences that would cater for 'one-off' cargo movements in emergency situations such as a natural disaster, supply crisis or other critical emergency.

The table below summarises the key elements of the proposed regulatory framework.

Table 1: Proposed Licence System

Access to Market	Allowable coastal cargo operations	Characteristics		
		Crew	Flag	Owner or operator
General Licence⁽¹⁾	<i>Australian registered vessels</i> <ul style="list-style-type: none"> ▪ Unrestricted ability to carry coastal cargoes and passengers ▪ Access to taxation incentives 	Australian resident	Australian	Australian
	<i>Foreign registered vessels</i> <ul style="list-style-type: none"> ▪ Unrestricted ability to carry coastal cargoes and passengers ▪ Five year, transition to Australian registration ▪ No access to taxation incentives 	Australian resident including s457 visa during transition	Foreign	Australian or Foreign
Temporary Licence⁽¹⁾	<ul style="list-style-type: none"> ▪ Voyage, time and trade limited 	AISR vessels - mixed ²	Unrestricted	Unrestricted
		Foreign vessels - unrestricted	Unrestricted	Unrestricted
Emergency Licence⁽¹⁾	<ul style="list-style-type: none"> ▪ Limited to situations to be specified in Regulations 	Unrestricted	Unrestricted	Unrestricted

(1) Subject to meeting safety, marine environment protection, security, etc standards

(2) Desirable that at least master and chief engineer are Australian citizens or permanent residents

The establishment of Australian International Shipping Register would facilitate Australian shipping operations in international trades and could have the following characteristics:

- Vessels to be Australian owned or operated;
- Genuine link between flag state and operator;
- Maintain Australia's standing as a 'quality' flag;

- Crew employed under internationally competitive terms and conditions that meet the requirements of relevant international conventions, unless the ship is engaged in the coastal trade in which case all crew would be covered by the Fair Work legislation;
- Ensuring a minimum crewing requirement of two Australian resident senior officers (preferably a Master and Chief Engineer). The remainder of crew could be non-residents.

2. Taxation incentives

Fiscal incentives for eligible companies operating qualifying ships on Australia's primary or international registers would include:

- access to a tonnage tax set at a rate of zero (or an exemption from the *Income Tax Assessment Act 1936*) and a tax scheme combining accelerated depreciation and relaxed capital allowance provisions for selected capital assets;
- an inclusive approach to the treatment of income covered by the tonnage tax regime;
- abolition of the Royalty Withholding Tax arrangements where vessels are leased by an Australian company from foreign owners under a demise or bareboat charter;
- A reduced personal income tax liability for Australian resident seafarers working overseas on qualifying vessels with the tax offset paid to the employer; and
- A mandatory training requirement for tonnage tax access.

3. An improved maritime skills and training regime

An enhanced maritime training regime to provide a secure skills base would include the following broad elements:

- Establish a Maritime Workforce Development Forum comprising industry, unions and education providers to advise governments and stakeholders on improving maritime skills and training outcomes and matters relating to the seafarers' workforce including mechanisms for workforce planning and sharing of resources in the delivery of training; and
- Encourage the maritime sector to take maximum advantage of maritime skills training initiatives through current programs and within existing funding allocations.

Productivity Compact

The Minister's announcement of 13 August 2010 indicated that the package of reforms would also require a compact between industry and unions to deliver productivity and efficiency reforms to better align practices in the Australian shipping industry with international best practice.

Impact Analysis

The Bureau of Infrastructure, Transport and Regional Economics (BITRE) was asked to undertake a cost-benefit analysis (CBA) of the Australia Government's proposed shipping reform package. The costed package included the proposed regulatory and taxation measures outlined in this RIS and incorporated productivity improvements expected to be achieved through the Compact between industry and unions.

The new policy was assumed to commence on 1 July 2012, with benefits estimated over the 20 years from 2011/12 to 2030/31 inclusive, measured in 2009/10 prices. The discount rate used was 7 per cent and an exchange rate of A\$1 = US\$0.9 (intended to represent the long term average over the analysis period) applied.

Four scenarios were analysed:

- Scenario A – no replacement of foreign temporary licence ships with Australian ships. The same quantities of freight carried by permit ships in the base case are carried by temporary licence ships in the policy case. No AISR ships are assumed to come into existence.
- Scenario B – for 'other dry bulk', petroleum products and 'other liquid bulk' sectors, Australian ships gain an additional 10 per cent of total freight tonnage from foreign temporary licence ships after five years. AISR ships are used in the triangular trades carrying coastal freight and coal to Asia, carrying a one-third share of coastal freight carried on triangular voyages with foreign ships accounting for the other two-thirds.
- Scenario C - as for scenario B but Australian ships gain 20 per cent of the total freight tonnage in the 'other dry bulk', petroleum products and 'other liquid bulk' sectors. AISR ships achieve two-thirds shares of the bauxite and iron ore triangular trades.
- Scenario D - use of foreign ships in the 'other dry bulk', petroleum products and 'other liquid bulk' sectors is phased out altogether over the first five years. The quantities of freight carried by foreign temporary licence ships fall linearly to zero over in 2016/17 and remain at zero thereafter. AISR ships gain all the bauxite and iron ore triangular trades.

The combined net present value (NPV) of the economic cost of the package is estimated to be a gain of \$192 million under scenario A. Smaller gains occur under scenarios B and C and a loss of \$202 million under scenario D. The table below provides details.

Table 2: Forecast growth rates and net present values of benefits by scenario and market segment

Market segment		Forecast growth rate	A	B	C	D
		(% pa)	Net present value (\$m)			
Dry Bulk	Bauxite (AISR ships on triangular voyages)	3.5	0	-16	-33	-49
	Iron ore (AISR ships on triangular voyages)	0.0	0	-10	-16	-25
	Other iron ore	0.0	15	15	15	15
	Other dry bulk	2.0	130	96	61	-80
Liquid Bulk	Petroleum products	1.0	30	18	5	-63
	Other liquid bulk	1.5	16	13	9	-1
Total NPV			192	116	42	-202

The Government has a clear intention to use the temporary licence system to encourage replacement of foreign ships with Australian ships so some substitution can be expected. Scenarios B and C are therefore considered most realistic. Scenarios A and D can be viewed as sensitivity tests of more extreme assumptions.

The benefit estimates are based on a large number of assumptions, including those relating to the productivity reforms outlined above under Productivity Compact, and therefore should be considered indicative. Indeed without the reforms Australian shipping will have difficulty in competing with foreign ships on the coast and cannot expect to achieve the benefits outlined above.

Consultation

Input from industry and the public on the coastal shipping trade and the proposed reform measures has been gained through a range of mechanisms, including a Parliamentary Inquiry, a Shipping Policy Advisory Group, a public Discussion Paper and through industry reference groups established by the Minister.

The Discussion Paper was available for comment for a period of eight weeks and a total of 46 submissions were received from a broad cross-section of maritime and related industries and from the public. Submissions were received from; industry/representative groups, research organisations,

training organisations, shipping operator/shippers, Government agencies, the shore-based maritime industry, cruise shippers, maritime unions and private individuals.

The Minister's Industry Reference Groups met on multiple occasions between February and the end of May 2010 to discuss and develop the implementation of the proposed regulatory, fiscal and workforce skills measures outlined in the Discussion Paper.

Generally, the submissions and the Industry Reference Groups showed broad support for the intent of the policy to develop an efficient, sustainable and internationally competitive Australian shipping industry. There was not, however, a consistent view across industry on how this could or should be achieved and shippers expressed the view that access to flexible and low cost shipping was important to their business in a competitive world economy.

This regulatory impact statement relies on the material and views provided by stakeholders through all of those processes. The key themes to emerge from consultation could be summarised as follows.

- There is broad support for the intent of the reforms to stimulate the Australian shipping industry and build a strong Australian maritime base into the future;
- Shippers support an effective, efficient and internationally competitive domestic shipping industry, but are concerned that Government intervention could increase freight rates and make some currently marginal trades uneconomic;
- More specifically shippers fear that restricting the use of Continuing Voyage Permits and Single Voyage Permits could lead to different modal choices (from maritime to land-based transport) or in particular cases, to the relocation of production offshore depending on the increase in transport costs;
- While differences exist among stakeholders on productivity and efficiency gains, there is general agreement on the range of fiscal and regulatory measures required;
- There is broad support for an optional tonnage tax, withdrawal of royalty withholding tax, accelerated depreciation, concessional seafarer taxation and changes to the cabotage regime with a view to an increased Australian presence in the coasting trade;
- The development of a second shipping register is welcomed as it would enable Australian shipping to compete more effectively in the international sphere;
- There is a willingness by industry and unions to develop a 'compact' that will underpin the reforms; and
- The new regulatory regime needs to consider the operational flexibility that shipping and shippers indicate is present in the current regulatory framework.

Review

A review of the effectiveness of the regulatory and taxation measures is proposed within five years. This period should be sufficiently flexible to allow shippers to adjust to the new requirements and for potential Australian shipowners to invest in new tonnage.

1. INDUSTRY OVERVIEW

1. Shipping plays a central role in the global economy and is responsible for the carriage of 90 per cent of the volume of world trade. The availability of low cost and efficient maritime transport has made possible the specialisation that characterises industrial production and in turn has added to improvements in global living standards. As a global industry shipping is highly competitive with investors seeking to operate and register their vessels in low cost regimes and to source crews from low cost countries.

1.1 International Shipping in Australian Waters

2. More than 99 percent of Australia's international trade, by volume, is carried by ship, reflecting our position as an island trading nation with rapidly growing exports of coal, gas and iron ore. In the 2007-08 financial year, over 70 per cent of imports and 80 per cent of exports by value were transported by sea, representing a combined value of over \$311 billion.¹
3. The scale of international shipping in Australian waters and ports is reflected in calls to Australian ports. In 2007–08, there were 27 434 calls to Australian ports of which 7161 were by containerships, 14 439 were by bulk carriers, 3633 were by general cargo vessels, and 2201 were by other vessels².
4. BITRE has indicated that, based on forecasts of containerised and non-containerised imports and exports:
 - calls by containerships are expected to increase to 6910 in 2012–13, and to 11 200 by 2029–30;
 - calls by bulk carriers are expected to increase to 15 500 in 2012–13, and to 23 100 by 2029–30; and
 - calls by general cargo vessels are expected to increase to 3710 in 2012–13, and to 4080 by 2029–30.
5. The volume of freight carried by international shipping is predicted to reach more than one billion tonnes in 2012. The value of the freight attributable to this task is valued at over \$10 billion. The vast majority of freight earnings are repatriated offshore.

¹ ABS data quoted in BITRE Statistical Report "Australian Maritime Activity to 2029-30", 2010.

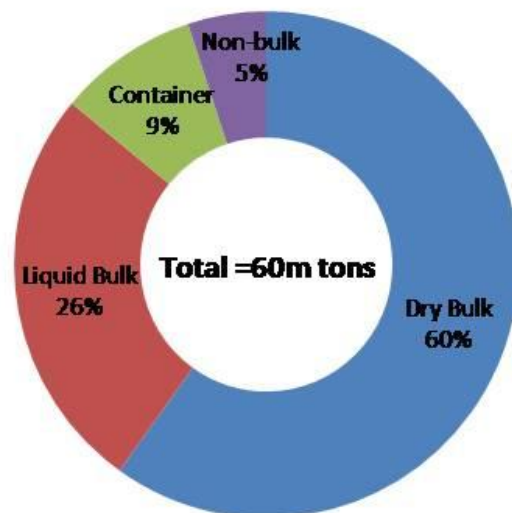
² *ibid*

1.2 The Coastal Shipping Task

6. Coastal shipping plays a key role in Australia's economy, being responsible for around 25 per cent of the domestic freight task on a tonne kilometre basis. In 2007/08, the total coastal shipping task increased to 60 million tonnes, compared with 51 million tonnes in 1999/2000. This represents a growth of two per cent per annum over the period. The coastal shipping industry was impacted by the global financial crisis in 2008/09, with the total coastal shipping task falling from 60 million tonnes to 52 million tonnes.

7. Of the 60 million tonnes of coastal sea freight, dry bulk accounts for 60 per cent, liquid bulk 26 per cent, containers 9 per cent and other 5 per cent (Figure 1).

Figure 1: Coastal Shipping Task by major pack type 2007/08 (BITRE 2009a)



8. In 2009/10, the revenue generated by the Australian coastal shipping industry is estimated at \$1.6 billion, compared with \$1.3 billion in 2000/01 (see Table 3). The average annual growth rate between 2000/01–2009/10 is 2.5 per cent. Industry value added grew at 1.2 per cent per annum, much slower than total revenue. In 2009/10, industry value added is estimated to be around \$500 million, accounting for 0.04 per cent of the GDP³ in Australia.

³ In 2009/10, Australian GDP is estimated to be \$1,300 billion.

Table 3: Industry Value Added Data 2000/01 to 2009/10

	Revenue (\$m) ¹	Industry Value Added (\$m) ¹	Employment
2000-01	1,316.6	451.6	4,500.0
2001-02	1,241.2	429.5	4,520.0
2002-03	1,415.3	486.8	4,680.0
2003-04	1,439.9	492.4	4,731.0
2004-05	1,512.1	518.4	4,817.0
2005-06	1,584.1	541.8	4,874.0
2006-07	1,634.3	559.0	4,923.0
2007-08	1,615.4	550.9	4,963.0
2008-09	1,594.7	510.3	4,953.0
2009-10	1,641.4	502.3	4,972.0
Average annual growth (%) (2000/01-2009/10)	2.48	1.19	1.11

Source: IBISWorld 2010.

(1) 2009/10 prices.

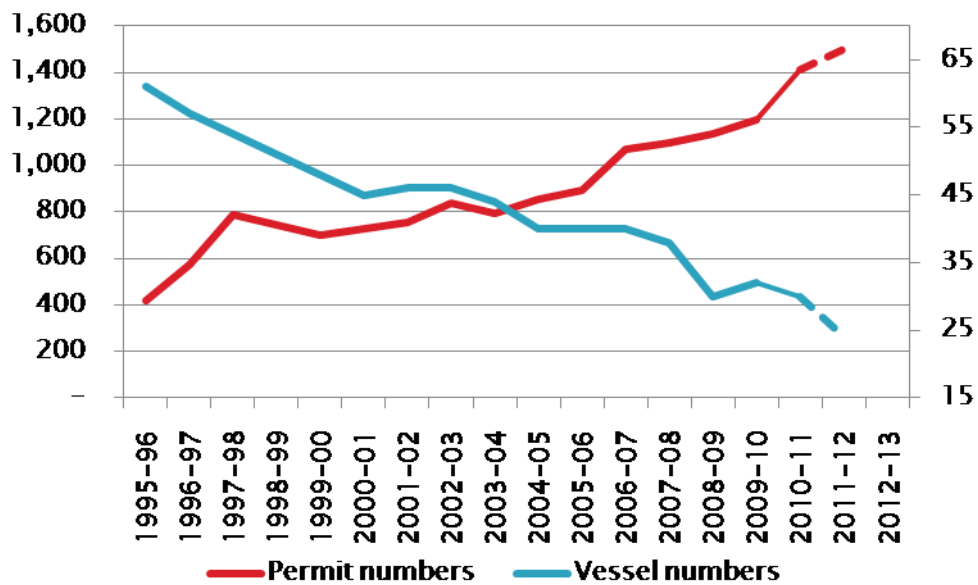
9. Of the coastal shipping task, the interstate coastal shipping freight task was 7.1 billion tonne kilometres in 2007. Historically, between 1972 and 1976, the interstate coastal shipping freight mode share declined sharply due to cessation of uneconomic services. Thereafter it remained stable until the advent of the single and continuous voyage permit system in the late 1990s. However, the interstate coastal shipping freight share on the corridor is expected to decline slowly until 2030 under current arrangements⁴.
10. In 2007–08, ships using single voyage permits (SVPs) and continuous voyage permits (CVPs) moved an estimated 14.9 million tonnes of freight around the Australian coast, including 44 470 containers.
11. The coastal shipping industry employed around 5,000 people in 2009/10.

⁴ BITRE Research report 120 – Multimodal Interstate Freight in Australia,

1.3 Foreign Shipping on the Coast

12. The number of Australian vessels involved in coastal shipping has been declining with increased use of foreign flagged vessels operating under permit to service the coastal trade. (Figure 2).

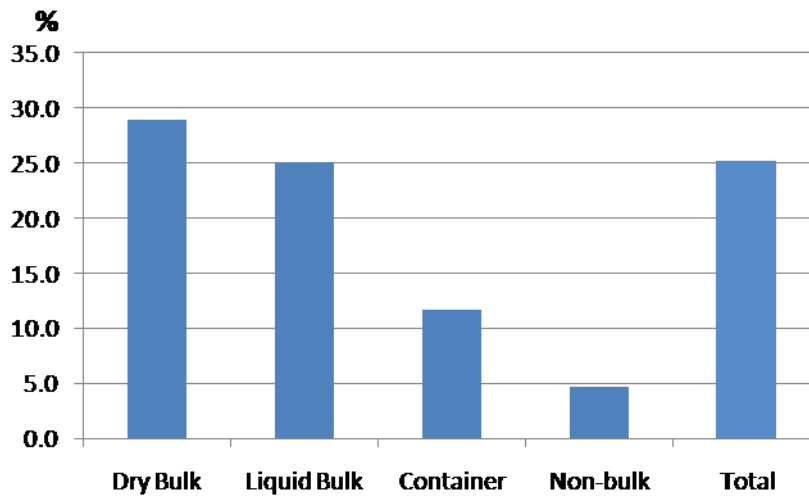
Figure 2: Coastal Freight Task and Australian registered vessels involved in coastal shipping (BITRE)



Australian Flagged Major trading Fleet (>2000 dwt)

13. Around one quarter of the total coastal sea freight is carried under permits (Figure 3). Competition varies across the various pack types. Foreign penetration is highest for dry bulk (29 per cent), followed by liquid bulk (26 per cent), containers (11 per cent) and other non-bulk (3 per cent). Within each pack type, the degree of foreign penetration also varies significantly depending on the corridor characteristics. For example, nearly the entire inter-capital container shipping task is estimated to be undertaken by foreign international liners (foreign licensed or permit ships), with domestic ships largely serving the non-capital city ports.

Figure 3: Permits as a share of the coastal shipping task by major pack type
2007/08 (BITRE 2009a)



14. It should be noted that the permit data reported in Figure 2 do not include the permits issued by State authorities. For example, Restricted User Flags have been increasingly used by Maritime Safety Queensland to give foreign ships access to coastal shipping within Queensland. If these permits had been included, the estimated foreign penetration would have been higher.

1.4 Determinants of Market Share

15. Competitiveness of the domestic shipping fleet vis-a-vis other transport modes and foreign shipping operators depends on many factors, including:
- cost
 - service level
 - transit time
 - frequency
 - reliability
 - characteristics of shippers/commodities
 - shippers
 - type of commodities
 - permit policy and administration.

16. These are important factors to consider in formulating assumptions about market shares of various ship types (or modes).

2. DEFINING THE PROBLEM

17. Over the last 15 years there have been a number of reviews undertaken of the Australian coastal shipping industry. The most recent of these was the inquiry by the House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, which released its final report in 2008⁵. Based on the findings of this report and other readily available information it is apparent that the problems currently faced by Australian shipping can be summarised as follows:

- Shipping is legally able to acquire a national character that is independent of its owner and operate internationally to take advantage of key tax incentives offered by the country of registration. This has created an intensely competitive global fiscal environment in a bid to attract shipping tonnage.
- The current regulatory framework allows owners of ships that regularly participate in Australia's domestic transport system to replace Australian operated and crewed vessels operating under a licence with foreign flagged vessels utilising permits, employing foreign crews and receiving tax subsidies from foreign countries.
- Alternatively Australian shipowners can register their ships offshore, employ foreign seafarers and seek to participate in the domestic coastal trade with foreign labour without the need to meet a residency or working visa requirement.
- Traditional (European) maritime nations have for some time now successfully introduced differential corporate tax arrangements and created new international registers to retain national tonnage.
- Australian shipping companies are subject to the standard corporate tax arrangement, which puts them at a competitive disadvantage with ships registered in countries like the United Kingdom, Singapore, Hong Kong and Canada that offer zero tax or very low rates for shipping businesses.
- Demographic analysis of the Australian maritime workforce indicates an ageing workforce that will undergo significant levels of turnover over the next five years. When combined with reducing training opportunities on Australian vessels and shortages of skilled maritime workers in the international labour market, Australia will face critical shortages in deck and engineering officer skills which form the basis of land and sea side maritime industry skills.
- Skills shortages are exacerbated by the demand for maritime labour emanating from the offshore and shore-based industries.
- While we could hope to recruit sufficient immigrant seafarers to meet Australian needs, the risks associated with availability and cost for this strategy could be significant in light of the competition that is emerging for qualified seafarers from developed and developing countries in the international marketplace.

⁵ *Rebuilding Australia's Coastal Shipping Industry*, October 2008 found at www.aph.gov.au/house/committee/itrdlg/coastalshipping/report/front.pdf

- Without positive action to address these issues, the decline in the Australian trading fleet will continue until the industry falls below the point of sustainable critical mass, leaving Australia reliant on foreign shipping operators and maritime workers in a shrinking global maritime skills marketplace.
- Productivity and efficiency gains and a range of fiscal and regulatory measures, including a tonnage tax or income tax exemption regime together with measures to ensure more opportunities for the training of seafarers could support an increased Australian presence in the coasting trade.

2.1 Strategic Issues

18. Australia has the fifth largest shipping task in the world, yet only 0.1 per cent of the 4,000 ships annually that come to Australia from overseas are Australian flagged. The decline in the Australian trading fleet is forecast to continue, leaving Australia reliant on foreign shipping operators and maritime workers in a global marketplace where there is increasing demand for maritime skills.

19. Australian commodity and resource exporters are reliant on shipping services for the export of their products to world markets. Despite the global size of Australia's exports, most of the shipping is chartered from international owners and operators through the international charter market.

2.1.1 Shipping as an international industry

20. The international shipping industry is characterised by highly mobile capital and investment in assets that are not tied to any fixed location. Shipowners may reside in one country; register vessels in other countries and employ 'third country' nationals. Shipping investors will seek out the countries that offer the most generous tax concessions.

21. An important aspect of transport and logistics is supply chain stability. Given the cyclical nature of transport demand, supply chain stability can arise from fluctuations to inputs in freight rates over time and firms will implement a number of strategies to manage their supply chain risks. For example, shippers of both domestic and international freight normally contract with shipping companies in order to minimise their exposure to freight rate volatility; others own their own shipping, particularly for bulk freight.

22. The economic drivers of shipping have changed considerably over time. Containerisation, ship size and specialisation have created economies of scale that, when combined with maritime labour sourced from low wage counties, have led to substantial reductions in the cost of

transporting freight by sea, and reduced margins for ship owners and operators. For example, at the height of the China export boom in 2006, the industry globally managed only a 3.3 per cent operating margin⁶; this is also close to the total long-term return on investment.

23. In the mid 1990s, traditional maritime countries implemented fiscal arrangements in an attempt to address the decline in their national shipping fleets. Those measures included:
- favourable tax regimes for ship-owners;
 - cost-offsets in employing domestic seafarers;
 - ship-financing schemes;
 - the encouragement of training (often mandatory) and career development; and
 - the establishment of second, international registers to support development of domestic shipping industries into international markets.
24. A report by the UK Inland Revenue and Department for Transport into the UK tonnage taxation scheme noted that since 2000, deadweight tonnage (carrying capacity) has increased from 5.2 million tonnes to 14.4 million tonnes at the end of September 2007 and attributed the introduction of tonnage tax in 2000 as a major factor in this revival. There has also been a healthy trend towards more registrations of larger, younger ships.”
25. The report concludes that the UK tonnage tax regime has:
- helped to reverse the decline in the UK fleet;
 - encouraged companies to maintain a base in the UK (with spill-over economic effects);
 - promoted training of cadets and ratings; and
 - helped to protect the £1 billion annual revenue from the shore based maritime sector.
26. Similar results have been achieved by other governments (including Denmark, Japan, the Netherlands, Germany and France) in recapturing the tonnage previously lost to these national registers⁷.

⁶ BRW article 'Not At Any Price', pg36-38, August 5-11 2010

⁷ Rebuilding Australia's Coastal Shipping Industry, House of Representatives Standing Committee on Infrastructure Transport, Regional Development and Local Government, October 2008

2.1.2 The Australian shipping industry in the international environment

27. At the time when fiscal and other reforms were being adopted in other countries, Australian government policies removed investment allowances and adopted a more liberal approach to shipping policy. Australia's lack of similar competitive regimes and structural reforms has arguably resulted in fleet and skills losses and a situation where Australian operators struggle to compete in the domestic and international shipping markets.

28. Australian shipping operators⁸ are at a significant disadvantage as they must compete with international operators who benefit from generous fiscal incentives, affecting Australian competitiveness in both the domestic and international shipping trades. For example it is claimed that the requirement for Australian wages⁹ on licensed vessels creates a cost differential of around \$1 million to \$3 million a year between an Australian licensed vessel and a foreign vessel.

29. The very high fixed costs of ships necessitate that they operate at near-full capacity to earn an appropriate rate of return on investment. Over the last 15 years, the ready availability of permits that enable foreign flagged and crewed vessels (with greater cost flexibility) to 'cherry pick' cargoes and routes to the detriment of Australian licensed and crewed vessels has created a difficult environment for Australian flagged vessels to build and sustain domestic shipping services.

30. Australia needs access to reliable shipping services and maritime skills. Increasing dependence on international shipping to perform a significant role in the domestic freight task while Australia's shipping fleet is in decline may create longer term risks.

31. The current regulatory system requires licensed ships to pay Australian wage rates while carrying coastal cargo. In contrast, ships operating under permit are able to pay their seafarers at international wage rates (consistent with Part B of the Seagoing Industry Award) which substantially lower crew costs. The cost differentials can be exacerbated when ships operating on international trading routes, operate incidental Australian coastal voyages, under permit, at marginal cost.

⁸ See for example the Australian Shipping Industry submission to the Parliamentary Inquiry report – *Rebuilding Australia's Coastal Shipping Industry*, October 2008

⁹ See for example, Section 3.21 of the Parliamentary Inquiry report – *Rebuilding Australia's Coastal Shipping Industry*, October 2008

2.1.3 Cabotage¹⁰

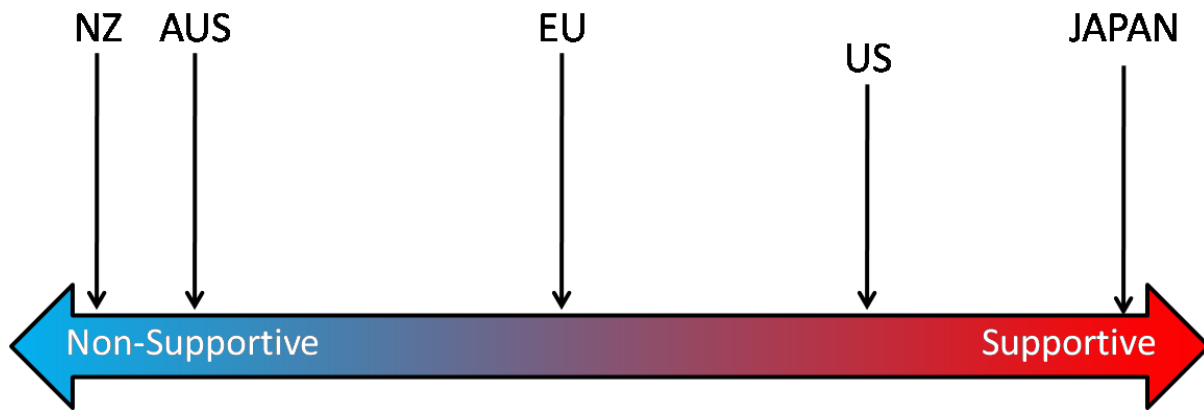
32. Australia's regulatory framework for access to the coastal trade is one of the most liberal in the world (Figure 4). Foreign ships currently operating under permits are deemed not to be engaging in the coastal trade and are therefore exempt from the provisions of Australian legislation, including most of the taxation and wages and conditions¹¹ which apply to licensed vessels and other domestic crewed and owned vessels.
33. It can be argued of course that the protection of Australian coastal shipping through 'cabotage' arrangements is contrary to the requirements of National Competition Policy (NCP), the Competition Principles Agreement was put in place by the Council of Australian Governments in 1995.
34. NCP "is based on an explicit recognition that competitive markets will generally serve the interests of consumers and the wider community, by providing strong incentives for suppliers to operate efficiently and be price competitive and innovative. A key principle of NCP is that arrangements that detract from competition should be retained only if they can be shown to be in the public interest"¹². NCP does recognise a need for government intervention in markets, where this is justified.

¹⁰ Cabotage is a term often applied to the international practice that, to varying degrees restricts coastal shipping (and domestic aviation) to domestic carriers.

¹¹ The *Fair Work Act 2009* now applies to foreign registered ships operating on the coast (see paragraph 42).

¹² Review of National Competition Policy Reforms, Productivity Commission Inquiry Report No.33, 28 February 2005

Figure 4: Government Policy Spectrum for Coastal Shipping



Most countries impose at least some restrictions on access to coastal shipping for non-national ships. The more supportive governments are also using a range of policy measures to ensure that coastal shipping has a role to play in national freight transportation.

Source: Based on Meyrick (2007) Short Summary – International and Domestic Shipping and Ports Study

35. As indicated above varying degrees of cabotage restrictions are commonly applied to coastal shipping and aviation in most countries, and Australia could be placing the Australian shipping industry at a long term disadvantage by a unilateral abolition of such restrictions. Indeed it could be argued that cabotage restrictions are more properly considered in the context of overseas trade policy than national competition policy¹³. In this context it should be acknowledged that little progress has been achieved by the World Trade Organisation or under the General Agreement on Trade in Services on the issue of maritime cabotage for some years now.

2.2 The Existing Regulatory System

36. Part VI of the *Navigation Act 1912* is outdated and does not reflect the modern freight and shipping environment. Accordingly it does not provide any clear policy statement or intent regarding Australia's approach to coastal shipping policy.
37. It is clear however that the focus of the *Navigation Act* is to express a preference for coastal trade, which is regarded as part of the domestic transport industry, to be carried by ships that are licensed by the Australian Government. For example, section 288 of the Act establishes the basic criteria for a ship to be licensed to engage in the coasting (ie interstate coastal) trade:

¹³ This was the approach adopted in the National Competition Policy (Hilmer) Review August 1993.

- the crew on board a licensed vessel must be paid Australian wages when engaged in the coasting trade;
 - the crew must have access to the ship's library for passengers if there is no library for the crew on the ship (s.288); and
 - the ship must not be receiving any subsidy from a foreign Government (s.287).
38. The legislation has not kept pace with the rapidly changing nature of shipping and freight operations, the requirements and obligations under international treaties or more recent moves by a range of nations to support and revitalise their own industries (see paragraph 22). Over time it appears that the provision for ships engaging in the coastal trade to not be receiving any subsidy from foreign governments has been largely ignored or proved incapable of enforcement. Either way the regulatory regime has therefore allowed ships to operate that are effectively in receipt of subsidies from foreign governments (more than thirty governments now provide tax concessions to ships registering in their jurisdictions).
39. A major criticism of the regulatory framework is the reliance on Ministerial Guidelines, rather than legislation or regulations to guide decision making in regard to issuing of permits. The Guidelines have no legal status, yet they are a key working document for administration of the regulatory regime. For example, permit applications are assessed against the criteria of 'availability', 'adequacy' and 'public interest'. These key terms are not defined in the legislation and need to be determined on a 'case by case' basis for each permit application; an adjudicatory role must therefore be performed by the Department in making decisions whether to allow a permit or not, compromising the administration of the system.
40. The absence of clear policy settings and increasing use of and reliance on, Ministerial Guidelines, has led to ad hoc changes to the permit system and industry claims this has led to uncertainty as to the long term intent of the Australian Government. At a practical level, this framework, has allowed a steady growth in the number of ships operating under permit; where 140 single voyage permits were issued in 1990-91, 921 were issued in 2009-10.
41. Sections of industry, including unions, have argued that the reliance on Ministerial Guidelines results in a lack of clarity, transparency and confidence in the regulatory system, further undermining investment confidence (see, for example, section 3.15 of the Parliamentary Inquiry). While all sectors of industry generally support the need for some kind of flexible permit arrangement as part of the regulatory regime,¹⁴ shipping and ship owner organisations have

¹⁴ Parliamentary Inquiry page 27

argued that the system is too flexible and open to interpretation, impacting negatively on business planning.

42. The process of regulatory drift has resulted from two influences therefore, firstly on the lack of enforcement of the provision that ships operating on the Australian coast should not receive subsidies from foreign governments and secondly on a gradually loosening interpretation of the preference requirements underpinning the issue of permits without the benefit of an overt consideration of Australia's longer term interests.

43. The existing legislation also has multiple links to cognate legislation that has significant implications for the overall shape of the regulatory framework in which coastal shipping operates, and arguably making the regulatory framework less transparent and more complicated to administer.
 - Part VI of the *Navigation Act* interacts with the *Customs Act 1901* (Customs Act) and the *Migration Act 1958* (Migration Act) to limit operations of non-licensed vessels in the coastal trades, for example in visa requirements for crews and in entering ships for home consumption.
 - Coastal trade vessels covered by the Act can also be covered by the *Seafarers' Rehabilitation and Compensation Act 1992* and the *Occupational Health and Safety (Maritime Industry) Act 1993*. The practical effect is that employers of seafarers on these ships are liable for compensation coverage and health and safety standards for crews under Australian legislation.
 - The *Fair Work Legislation Amendment Regulations 2009 (No.2)* and the *Fair Work Act* apply to ships located in Australia's territorial sea, exclusive economic zone (EEZ) and waters above the continental shelf that are (effectively) engaged in the coasting trade. It works to apply the industrial relations provisions in the Act and to apply the *Seagoing Industry Award 2010*.

2.3 Maritime Skill Shortages

44. The Parliamentary Inquiry identified maritime training and skills shortages as one of the national challenges facing the maritime transport system. Skills Australia in its 2010 report '*Australian Workforce Futures: A national workforce development strategy*' identified maritime transport professionals as a specialised occupation where the impact of declining employment opportunities is potentially significant.

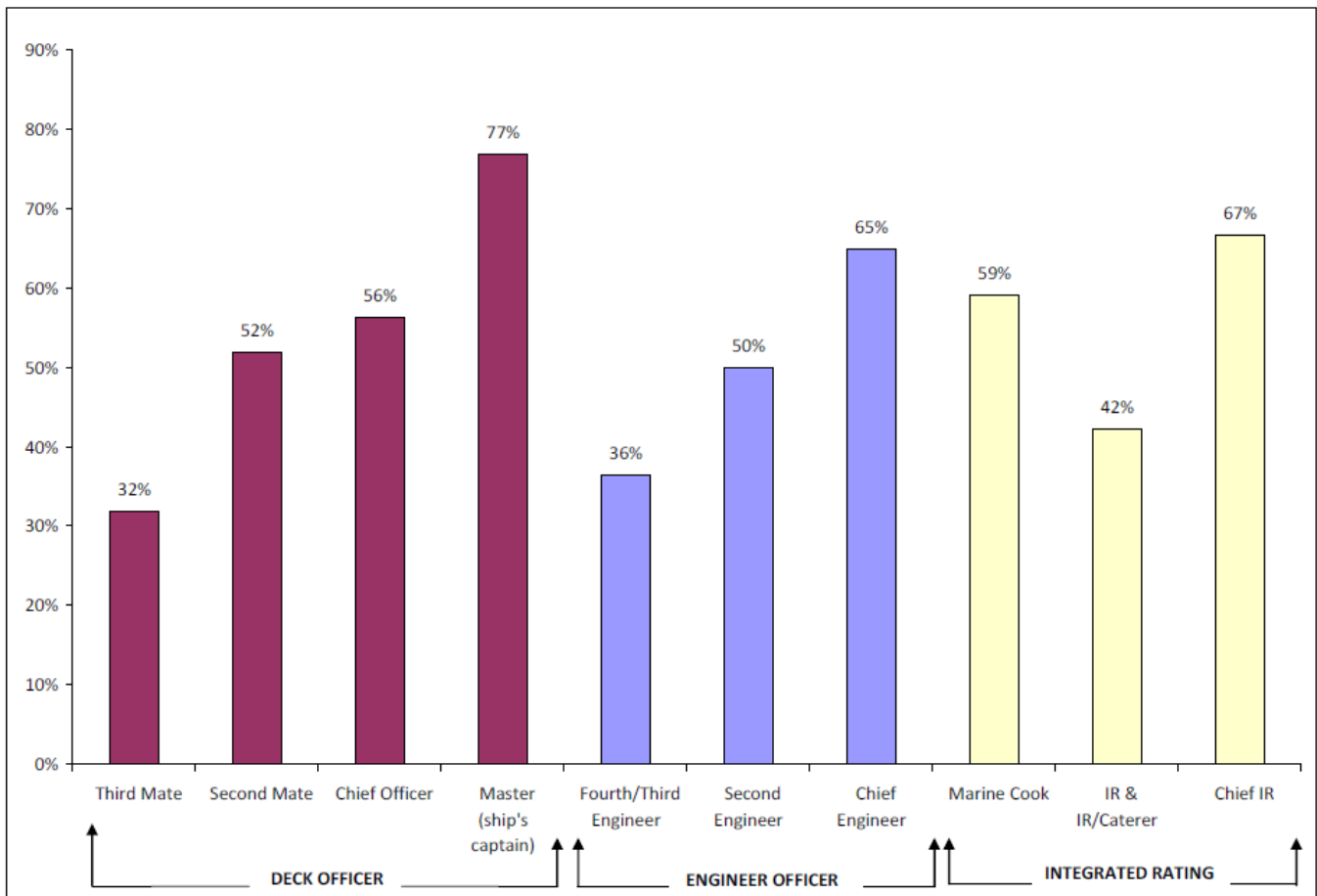
45. This is consistent with international recognition of the need for seafaring experience and competency, although this has generally been confined to the national level without any real action at the international level. European countries in particular have placed a premium on establishing and maintaining shore based institutions in such fields as ship acquisition and financing, ship management, ship chartering and brokerage, freight forwarding and marine

insurance. Also important, though not highlighted to the same degree is the need for public sector expertise in marine safety, ship inspection, coast guard or customs fleet operations and accident investigation

46. Like many industries the maritime industry is feeling the pressures of an ageing workforce. The Department of Education, Employment and Workplace Relations has reported employers indicating that 49 per cent of their seafarer workforce is aged 45 years or older.¹⁵ This compares with 38 per cent of the Australian workforce overall and is particularly evident among Masters (more than three quarters over 45) and Chief Engineers (nearly two thirds over 45) (see Figure 5 below).
47. Practical experience on a ship ("sea time") is necessary to develop seafarer qualifications but without a strong domestic maritime industry to provide trained personnel, on-shore industries that require maritime skills, such as piloting, regulation and inspection, will suffer, as would Australia's ability to set and enforce maritime safety, environment and security standards.
48. Industry estimates that three times more deck officers and five times more engine officers will enter retirement age than those that have recently entered the industry.
49. Building a strong skills base is hindered by the complexity and fragmentation of existing training structures including: the need to conform to (above) international standards for some competencies; mandatory sea time to gain most maritime skills qualifications (whether needed or not); training delivery and funding split between Commonwealth and State jurisdictions; different skills training paths for officers/engineers and ratings. These factors create cost and practical challenges for employers and training institutions in funding and providing maritime skills training.

¹⁵ DEEWR "Survey of Employers' Recruitment Experiences Maritime Industry Bluewater Sector", November/December 2008

Figure 5 - Proportion of seafarer workforce aged 45 years and over by occupation¹⁶



50. Australian seafarers are highly regarded internationally, yet are currently not competitive due to significantly higher Australian wage rates¹⁷. Shipping companies are reluctant to invest in training, seeing themselves as unable to realise a positive return on investment from funding training berths while they are under intense competition from foreign vessels on the coast. The costs of a trainee on board a ship are relatively high and many transfer to better paid billets in the offshore industry once qualified. Moreover the international shipping industry is itself short of trained seafarers, at least in the officer group, and any reliance on importing seafarers would need to take account of the competitive environment that already exists in seafaring occupations.

¹⁶ *ibid*

¹⁷ Maritime Union of Australia (2008), *Submission to the House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government – Inquiry into Coastal Shipping Policy and Regulation*, <http://www.aph.gov.au/house/committee/itrdlg/coastalshipping/subs/sub45.pdf> pp.53-54

51. Wage competition with other sectors, such as the offshore oil and gas sector are also said to affect the acquisition by Australia of effective seafaring skills¹⁸. For example, in 2008, a report by the Department of Education, Employment and Workplace Relations found that 82 per cent of employers reported that one or more seafarers had left their business to work in the offshore oil and gas sector. Anecdotally, employers advise that they lose up to 50 per cent of employees they have trained in any one year, to the offshore sector.

52. Unlike many of their international counterparts, Australian resident seafarers are taxed on their worldwide income, including earnings from employment on international shipping vessels with no specific concession for international seafarers. The range of countries that provide some form of tax exemption for resident seafarers include Singapore, Korea, Vietnam, Indonesia, Malaysia, Thailand, Hong Kong, Pakistan, India, the United Kingdom, Germany, Denmark, Holland and France. Many of the EU flags that have adopted personal taxation measures, as part of a broader package of reforms.

53. More than thirty foreign jurisdictions with which Australian vessels must compete, receive the benefits of fiscal support (e.g. tonnage tax, tax concessions/exemptions, subsidy schemes) under their home registries. Many of these jurisdictions also prescribe mandatory training requirements for their nationals as part of the package of measures they have introduced leading to a growth in the size of their shipping industry and workforce but from Australia's point of view acting to restrict opportunities for Australians to gain seafaring experience.

¹⁸ Australian Shipowners Association (2008), *Submission to the House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government – Inquiry into Coastal Shipping Policy and Regulation*, <http://www.aph.gov.au/house/committee/itrdlg/coastalshipping/subs/sub29.pdf> pp. 48-49

3. THE ANNOUNCED REFORMS

54. On 13 August 2010, the Minister announced during the Federal election campaign that a “re-elected Gillard Government will introduce measures to strengthen Australia’s shipping industry for our economy and our environment”. That announcement established an overarching aim of reversing the declines in the Australian registered fleet and the pool of Australian maritime skills.
55. Supporting that aim, the Minister released a public Discussion Paper on 1 December 2010 that put forward a framework for reforms across three areas:
- regulatory changes to modernise the current legislation, provide a clear operating framework for ships and shippers and to establish an Australian international shipping register;
 - taxation incentives to encourage investment in Australian ships and skills development; and
 - a coordinated approach to develop workforce capability across the whole of industry to build a maritime skills base into the future.

3.1 Objectives of the Proposed Reform Framework

56. The key objectives of the reform framework the Government has announced are to:
- Ensure Australia has a viable domestic shipping industry, as part of a competitive domestic freight market, able to provide coastal shipping services at a reasonable price for customers and which reinvests in its ships when they reach the end of their economic lives;
 - Ensure Australian shipping maintains and potentially grows its share of the national transport task in order to meet the growing task efficiently and effectively;
 - Provide opportunities to increase Australia’s participation in international shipping, reflecting the significance of shipping to our trade base and giving Australian exporters greater potential to control their supply chains;
 - Secure the future supply of skilled maritime employees to service trading ships, offshore facilities, stevedores, port operators, harbours, pilot providers, salvors, and marine environment regulators in order to provide for Australia’s growing shipping needs whilst protecting our maritime environment; and
 - Ensure the Australian merchant fleet can potentially support Australia’s Defence needs and strengthen our maritime security.

3.2 The Proposed Regulatory Regime

57. Reform of Part VI of the Act will maintain basic cabotage principles as currently provided for in the Act, strengthening support of Australian shipping operators while still enabling foreign operators to participate.
58. However, where Part VI of the *Navigation Act 1912* currently focuses on the issue of licences and permits for particular ships and/or particular voyages, amendments are envisaged that it will focus more closely on the intent of building the Australian shipping industry.
59. A key element of the regulatory reforms will be strengthening the legislative regime to implement the Government's policy. This will provide greater transparency and certainty for industry. Applications to operate in the coastal trade will therefore require operators to provide different (though not necessarily more) information than has previously been sought (outlined below). More information will be available to all of industry than has been provided in the past on the current trends in the shipping industry to assist with investment and operational decisions. To the extent possible (considering commercial, privacy and other relevant information restrictions), details of applications and reporting will be made available on the Department's website. Where the regulatory framework operates from a clear and transparent information base, using a common understanding of markets, coastal operations and trends, the more certainty and transparency will be available for industry operations.
60. The issue of a licence to operate in the coastal trade would result from the assessment of an applicant's proposed shipping activities against criteria that reflect the policy intent of building the Australian shipping industry. A licence could be issued in one of three categories as detailed below, each of which would be conditional.

3.2.1 General Licences

61. General Licences would allow unrestricted access to the coastal trade for Australian registered vessels (not including those on the AISR). To support business certainty and direction, they would be available for a period of up to five years. Australian registered vessels could access the proposed taxation incentives.
62. The key criterion for access to a General Licence is Australian registration of a vessel. However a General Licence applicant would be required to submit a licensing statement that addresses a number of matters that are linked to the overarching policy objectives:

- A statement of operating intent that details who the shipping operators customers are, what trades they are serving and the cargo to be carried. Details of the vessels to be used would also be nominated (such as vessel type, registration details, or other matters particular to the ship);
 - A broad assessment of market conditions for the trades being served that might include matters such as industry performance over a 12 month period; domestic or global pressures that are influencing demand for cargo movements; anticipated volumes to be carried over the period of the licence; the main shippers in the market and an indication of other shipping companies working the route; and
 - Safety, environmental and security conditions (as regulated by AMSA) would also be provided.
63. General Licence operators would be required to report on their operations on an annual basis, generally providing an assessment of their operations against the details provided with their application. This replaces the current requirement to seek a renewal of a general licence annually so that overall the regulatory burden would remain about the same.
64. Those foreign-registered vessels that are licensed under the current regime would be given a five year transition period to move to Australian registration of their vessels. The transition period acknowledges that many of them are currently locked into foreign financing regimes that would require sufficient planning to support a move to Australian registration. Their access to the taxation incentives will need to be based on meeting the requirements for the taxation options outlined in the 'Financial Measures' section of this RIS.
65. There may be situations, however, where a foreign vessel may be unable or unwilling to meet the five year transition timeframe due to financial commitments, operational obligations or registration requirements elsewhere (for example, lock-in conditions on existing registration, high costs of transferring financing in the short term, or the need for business planning by a parent company). In such circumstances the Minister will be able to issue an exemption, subject to provision of appropriate evidence of such arrangements.
66. In deciding to issue an exemption, the Minister would have to consider a statement of reasons as to why the exemption should be provided; that statement should also include broader considerations of market needs (including for Australian maritime skills, or a lack available Australian registered shipping) the foreign ship is supporting.
67. General licensed operators will be required to use Australian crew, thereby providing clear opportunities to build and maintain Australian maritime skills. While shipping operators using

foreign-registered vessels with a General Licence will have unrestricted access to the coast for a transitional period, they will continue to use and maintain Australian crews and the skills opportunities will not therefore be lost.

- 68. The existing Part VI requirement relating to foreign government subsidies and the provision of a library would be repealed as they are no longer relevant.
- 69. The crews on General Licensed ships would continue to be paid Australian crew wage rates and provide employment terms and conditions in accordance with the *Fair Work Act 2009*.

3.2.2 Temporary Licences

- 70. A new category of Temporary Licences will be created which would provide voyage and time limited access of up to 12 months to specified coastal trade. Foreign registered and vessels on the Australian International Shipping Register would be able to operate under a Temporary Licence to enable them to undertake a specified number of voyages in their specified trades over the year. Temporary Licence vessels are expected to cover the less constant, predictable or reliable trade generated by domestic industries that need to move cargo around the Australian coast.
- 71. A Temporary Licence could allow a maximum number of voyages in specified trades where ships are not (or cannot be) known at the time of application. In situations where the need to move trades is certain but the regularity of that movement is less certain (such as crude oil shipments having to respond to international spot markets) and therefore where ship availability will not be known, a Temporary Licence could be issued for a maximum number of voyages for a trade, with vessel details to provided when known.
- 72. A number of operators also use multiple SVPs using the same vessel, indicating a level of consistency of trade and regularity of vessel availability. Where, for example, a shipping operator has a contract in place to move defined (volumes and types of) trades and knows the vessel that will be used to move the cargo, a Temporary Licence could be issued that reflects the number of voyages on specified ships, that would be undertaken to fulfil that commitment to those trades.
- 73. An applicant would apply for a maximum number of voyages to be stipulated on a Temporary Licence, based on key considerations such as their activities (numbers of voyages) over the previous 12 months and current market, or other, forces (such as seasonality of trades) that might influence the need to undertake the stipulated number of voyages.

74. In applying for a specific number of voyages, a Temporary Licence applicant would be, in effect, establishing a 'benchmark' that would be considered for each later Temporary Licence application as an indication of the constancy of a trade and its viability for carriage by a General Licence operator. Where a Temporary Licence applicant seeks successive increases in the numbers of voyages in a given trade, a direct check with General Licence operators could be done to establish their ability to carry the nominated trades. Should a General Licence operator be able to carry the trade on reasonable commercial terms and to satisfy the cargo or passenger movement needs of the shipper, the Temporary Licence could be refused.
75. Acknowledging the volatility or seasonality of many trades, a voyage would be considered as 'empty-ship to empty-ship'; that is, a vessel could deliver and accept cargo at a number of ports from its loading port (where it starts empty) to its final unloading port (where it finishes empty of domestic cargo). While available for up to 12 months, the number of permissible voyages would be limited. This would still be more efficient for both operators and shippers than the current CVP and SVP arrangements which require a new application for each voyage contemplated.
76. To ensure all appropriate and necessary safety matters are considered, an operator would be required to provide details of the vessel that will move the cargo to the Department, as it becomes known. A check on safety, environmental and security matters will be done on that vessel and the operator provided with a final 'approval' if those checks are satisfactory.
77. The issue of a Temporary Licence would occur after consideration of a number of matters that are linked to the overarching policy objectives, including that of ensuring a viable Australian shipping industry and the effective movement of goods. A licensing statement would be required from an applicant that would address:
- how the applicant's proposed operations fulfil Australian coastal shipping needs and how the granting of the Temporary Licence will contribute to the longer term development of the Australian shipping industry;
 - details of the applicants operations; the markets and customers being served, cargo volumes or passenger numbers, vessel and route details;
 - how their operation in servicing a given trade would enable them to prove a longer-term market (that might, for example, enable a transition to a General Licence);
 - how a temporary licence might be used to support a company using a fleet of vessels to service combined international and coastal trades;

- any proposed Australian content such as the use of Australian crew; a commitment to train Australian seafarers; Australian company details;
- for vessels registered on the Australian International Shipping Register that have opted into the tonnage tax regime, how the operator will meet the obligatory training requirements;
- circumstances that could preclude their committing to a General Licence in the foreseeable future (eg evidence that a trade will simply not support a general licensed vessel or is too small for a viable dedicated service); and
- any intent and plans an operator may have to move to Australian registration.

78. However, consistent with a key policy intent to support Australian shipping (and similar to the current regulatory regime), Temporary Licence applications would be available for Australian registered General Licensed operators to provide an indication of their ability to move the trades that have been identified in the application. Should such an operator indicate it has capacity to carry that trade, a final decision on the issuing of the Temporary Licence would be resolved by considering the following matters:

- The ability of that Australian registered operator to:
 - carry the cargo or passengers according to shipper/cruise operator requirements on reasonable commercial terms;
 - carry the entirety of the cargo or full number of passengers stipulated in the application;
 - provide a vessel that is suitable and adequate (ie is it of the right size, type and suitably equipped) to move the cargo or passengers; and
 - provide a suitable and adequate vessel for the estimated number of required voyages and within known timeframes.

79. Temporary Licence holders would be required to report regularly (possibly quarterly) on their operations and against the details provided in their application. Annual applications for Temporary Licences would need to be submitted for continued operations. At each annual application, a review of the applicants operations (against their regular reporting) would be carried out, with a view to understanding the applicant's justification for seeking a Temporary Licence.

80. Importantly with Temporary Licences, application, approval and reporting information would be available on the Department's website (having applied commercial in confidence, Freedom of Information, privacy and other information restrictions to its publication). This will allow the broadest reach of industry to access data and information in relation to the operation and outcomes of the licensing system and in turn, support a clearer and more comprehensive understanding of the domestic shipping market and industry. Transparency of information will

address long standing concerns regarding lack of market information and encourage improved planning and development of Australian shipping operations. In the longer term a comprehensive data set will be created which will support improved policy making and regulatory activity.

81. The carriage of passengers or cargo to or from any port, or between any ports on vessels with a Temporary Licence would be deemed not engaging in the coastal trade (consistent with the current treatment of permits under s.286 of the Act).
82. Crews on vessels operating under a temporary licence and restricted licence would be covered by the *Fair Work Act* (Part B of the *Seagoing Industry Award*) while on Australia's coast as is the case currently in respect of continuing voyage permits and single voyage permits (where 2 or more are issued).

3.2.3 Emergency Licences

83. A new category of Emergency Licences would be created that would be limited to cargo or passenger movements in emergency situations such as a natural disaster or other critical emergency.
84. The relevant considerations for the issue of an Emergency Licence would be the need to critically move goods or people due to an 'unforeseen event' such as a natural disaster or other similar emergency (the recent example of the floods and cyclones in Queensland where ships carried goods normally carried by road freight is an example). Poor planning or lack of proper long term investment in appropriate infrastructure would not be considered to meet this criterion.

3.2.4 Summary of Licence structure

85. The current and proposed regulatory systems are summarised below. Table 4 shows the operation of the current coastal shipping regulatory regime and Table 5 shows the key features of the proposed coastal shipping regulatory regime.

Table 4: Current Licence and Permit System

Access to Market	Allowable coastal cargo operations	Characteristics		
		Wage Rates	Flag	Owner or operator
Licence	Unrestricted ability to carry coastal cargoes and passengers – ship must not be in receipt of subsidy	unrestricted Part A (Seagoing Industry Award)	unrestricted	unrestricted
Single Voyage permit	Restricted to single voyage based on application, defined date of voyage and tonnage – subject to criteria of licensed vessel availability, adequacy and in the public interest	Part B (Seagoing Industry Award)	unrestricted	unrestricted
Continuing Voyage permit	Restricted to voyages under 3 month period based on application, defined dates of voyage and tonnage – subject to criteria of licensed vessel availability, adequacy and in the public interest	Part B (Seagoing Industry Award)	unrestricted	unrestricted

Table 5: Proposed Licensing Structure

Access to Market	Allowable coastal cargo operations	Characteristics		
		Crew / Wage rates	Flag	Owner or operator
General Licence – Australian registered ⁽¹⁾	<ul style="list-style-type: none"> Unrestricted ability to carry coastal cargoes and passengers. Access to Australian taxation incentives 	Australian Resident /Part A -Seagoing Industry Award	Australian	Australian
General Licence – transitional ⁽¹⁾	<ul style="list-style-type: none"> Foreign ships licensed under existing regime Unrestricted ability to carry coastal cargoes and passengers Five year transition No access to Australian taxation incentives 	Australian Resident/(s457 visa) Part A - Seagoing Industry Award	Foreign	Australian or Foreign
Temporary Licence ⁽¹⁾	<ul style="list-style-type: none"> Time, trade and/or voyage limited 	Part B - Seagoing Industry Award	Australian (AISR ⁽²⁾) or foreign	Australian (AISR) or foreign
Emergency Licence ⁽¹⁾	<ul style="list-style-type: none"> Limited to emergency situations 	Part B - Seagoing Industry Award	Unrestricted	Unrestricted

(1) Subject to meeting safety, marine environment protection, security, etc standards

(2) On AISR vessels, at least two senior officers, preferably the master and chief engineer should be Australian residents

3.2.5 Other regulatory issues

86. There would be no change to the current Regulations that apply the *Fair Work Act 2009* to foreign crew on ships operating under Temporary Licences.

87. The current Continuing Voyage Permits and Single Voyage Permits would be abolished.

88. The 'coastal trade' would continue to be defined in accordance with section 7 of the Act. It is also proposed that the current exclusion of Christmas Island, Cocos Keeling Island and Norfolk Island be retained. The current arrangements for cruise shipping will remain.
89. Intrastate shipping trade will continue to be regulated by relevant State and/or Territory bodies.
90. Section 287 of the Navigation Act making it an offence for a licensed ship to be in receipt of a subsidy from a foreign Government would be repealed as it is difficult to administer and out of step with contemporary practices.
91. Existing provisions to ensure that seafarers are covered by Australian wage rates will be removed from the *Navigation Act 1912*, placing the application and management of wage rates within the *Fair Work Act 2009*. This will ensure full consistency with the broader workplace relations framework and structures.

3.3 Financial Measures

92. A contemporary fiscal regime is proposed for relevant participants. Fiscal incentives include:
- Access to a tonnage tax regime or an Income Tax Exemption by Australian companies with ships on Australia's primary register and the AISR ;
 - Access to accelerated depreciation with a capital allowance balancing charge exemption (or capital gains tax exemption if applicable) for selected assets, commonly called roll over relief;
 - An exemption from Royalty Withholding Tax liability by foreign owners of vessels where the vessel is leased under a demise or bareboat charter to an Australian company;
 - Individual taxpayer concessions for qualifying seafarers, paid to the employer; and
 - A mandatory training requirement.

3.3.1 Tonnage tax

93. The proposed tonnage tax is based largely on the UK tonnage tax regime with modifications to suit Australian circumstances and to make the regime competitive with Australia's neighbours. It is a simplified system intended as a replacement for the calculation of a qualifying vessel's taxable income, which involves using a predetermined tonnage tax rate to calculate a notional profit. This means that under tonnage tax actual revenue and usual related tax deductions of qualifying ships are ignored.

94. The result of a zero tonnage tax rate is that any notional profits derived from shipping would pay no corporate tax. In addition, due to the nature of tonnage tax being a replacement for normal taxation regimes, the company receives relief from a number of other tax liabilities, such as taxation of capital allowances for those periods while the ship is covered by tonnage tax. However it also loses other tax benefits such as the claiming of expense deductions against the qualifying ship.
95. A zero tonnage tax rate is recommended; it is expected to raise about \$1 million less than the rates set out in the Discussion Paper of 1 December 2010.

3.3.1.1 Income Tax Exemption (ITE)

96. An alternative to tonnage tax with a zero rate as a way of delivering tax incentives to Australia's shipping industry is an income tax exemption (ITE). The ITE would apply to all qualifying shipping income for those ships satisfying qualifying conditions (see below).

Income Tax Exemption (ITE) versus Tonnage Tax Regime (zero tax rate)

97. Arguably, a tonnage tax sets up a new tax regime with a zero rate that could be varied at some point in time. This would be easier to facilitate than a repeal of an exemption. An exemption may provide greater certainty for large scale shipping investments and (unlike the tonnage tax) would be much simpler to understand and comply with, providing greater taxpayer certainty.
98. The key risk with delivering this reform lies with designing the new law. The ITE, unlike a tonnage tax, provides the greatest opportunity to minimise this risk. A tonnage tax requires the development and enactment of a whole new separate tax act in order to comply with Constitutional requirements. In developing a tonnage tax, a carve out of the existing income tax law would be required to ensure that the operators are not subject to both income tax and tonnage tax. This would have to be achieved by creating an exemption from the income tax law. This exemption would be identical to the ITE. The ITE would on its own result in an effective zero rate of tax.
99. Due to the 1 July 2012 start date for the measure, the ITE (on its own) provides the best means to remove the otherwise significant implementation risks associated with the development of a tonnage tax. Utilising the existing income tax laws should minimise uncertainty and provide a smoother transition to the new regime. There would, for example, be a greater degree of uncertainty for industry and their advisers about how the Commissioner and the Courts would interpret new laws residing outside the Income Tax Acts with no existing precedent to draw from. In addition, the exemption model should allow administration to be based around well

established and already familiar rights and obligations such as review processes or annual lodgement of tax returns.

100. It is concluded that an exemption from income tax for all qualifying shipping income could produce the same benefits as a tonnage tax but without the administration and compliance costs associated with introducing new taxation arrangements to define and codify a new tax. The exemption option would carry with it the same lock in period and training requirement as the tonnage tax option and would be integrated with the current tax system in a similar way to the tonnage tax proposal.
101. The development of a tonnage tax would be significantly more complex without producing any additional benefits, other than the partial benefit that shipping companies are less familiar with the ITE concept than with tonnage tax. However, Singapore which is a close competitor has an exemption provision.

3.3.1.2 Entry and exit

102. On entry into the tax regime, all prior year tax losses would be carried forward (frozen) but subject to a wastage rate over the period of time in the tax regime.
103. The proposed opt-in period for the tonnage tax will be 10 years, to provide a secure environment for investment, with the ability to roll over the opt-in period both annually, and at the end of the 10-year period. However the entrant is locked in for the full 10-year period. To prevent rorting, it is proposed that there will be a lock-out period of up to 10 years in the event a vessel leaves for a tax avoidance purpose.

3.3.1.3 Qualifying conditions

104. The primary company taxation measures consist of two optional schemes, which are entered on a company or per ship basis. In order to elect entry into the tonnage tax scheme or to access the new incentives for companies that choose not to enter the tonnage tax regime, the company would need to satisfy a series of qualifying conditions, which allow the package to fulfil the overriding strategic objectives of the shipping reform package. These conditions are:
- Potential entrants should be an Australian company;
 - Qualifying activities would be confined to seagoing commercial vessels and related trading activities over 500 gross tonnage involving the carriage of cargo or passengers (consistent with the *Navigation Act 1912* this category is intended to cover the 'blue water' fleet and exclude offshore support vessels, fishing vessels, tugs, harbour or river ferries, pleasure craft and government owned vessels);

- Qualifying ships must be Australian owned or controlled and registered in either Australia's primary or international shipping registers; and
- Companies must demonstrate substantive levels of strategic management and/or commercial management and/or technical management and crew management taking place in Australia as part of a mechanism to ensure overall net benefits for Australia.

3.3.1.4 Ring-fence

105. Delineation between included and excluded profits under the proposed tax regime is a primary issue. It is proposed that it would be limited to those profits generated by participating in "qualifying activities". Critical to having a successful tax regime in Australia is an inclusive approach to the definition of qualifying activities. As there is a difference in rates applying to shipping, a ring fence needs to be drawn between income taxed at the tonnage tax rate (0%) and income taxed at the normal corporate rate of tax of 30%. It is proposed to adopt an inclusive approach in ring fencing the tonnage tax or exempt 'income'. That is, anything to do with the operation of a ship should be considered as tonnage tax income as well as a generous approach to secondary and a capped approach (0.25 per cent of qualifying turnover) to incidental income. This makes the scheme more attractive to shipping companies and simpler to understand and administer.

3.3.2 Accelerated depreciation

106. The Commissioner of Taxation currently estimates the effective life of a vessel for taxation purposes as 20 years (TR2010/2 Federal Commissioner of Taxation). The proposed taxation reform is that a qualifying company may elect to use accelerated depreciation, combined with a relaxation of capital gains liabilities (not expected to apply) and capital allowance provisions, commonly called "roll over relief". This would encourage Australian shipowners to update the ageing fleet to modern and more efficient vessels.

107. The roll over relief will take the form of a balancing charge exemption where a vessel is sold and replaced with a similar vessel. A CGT same asset roll over will also be available if a CGT event takes place.

3.3.3 Royalty Withholding Tax

108. One area of perceived inequality with regard to shipping taxes has been in the area of Royalty Withholding Tax (RWT). Currently some industry proponents argue that the leasing of a ship under a bareboat charter, which could be crewed by Australian seafarers, is significantly less attractive than hiring a ship under a time charter (which comes with a crew of the owner's choice).

109. Payments under a bareboat charter (where a ship is provided without captain or crew) are treated as royalties as payments are for the use of equipment (a ship), that is they fall within the definition of a royalty. Where royalty payments are made to a non-resident the payments are subject to RWT.
110. RWT is levied on a gross basis (that is, on the gross royalty without allowing deductions) at a flat rate that varies depending on whether a tax treaty applies. The tax is remitted by the payer of the royalty (the lessee) — that is, the Australian resident, which addresses the administrative complexity of collecting tax from non-residents. Income subject to RWT is excluded from assessable income for the purposes of Australian income tax.
111. RWT only applies to bareboat charters and not time charters (where the foreign ship is supplied with — typically foreign — captain and crew). A time charter — constituting a payment for services rendered by the owner to the lessee — is not a royalty. A foreigner supplying a ship under time charter party — whereby the ship is typically supplied with a captain and crew — is subject to tax under section 129 of the *Income Tax Assessment Act 1936* (commonly referred to as freight tax). Under this section five per cent of the gross amount received for freight and passage is subject to tax in Australia — resulting in an effective tax rate of 1.5 per cent (30 per cent x 5 per cent).
112. The rate of RWT depends on the residency of the non-resident lessor. Where the lessor resides in a jurisdiction with which Australia does not have a tax treaty, the RWT rate is 30 per cent. Under Australia's older treaties, RWT rates are typically between 10 and 15 per cent, with a maximum of 25 per cent.
113. Commencing with the revised Australia United States treaty (in 2001), Australia has sought to remove payments for the lease of equipment — including mining equipment and aircraft as well as ships— from the royalties definition for the purposes of the treaty so that RWT no longer applies. Accordingly, there is an exemption for RWT for equipment leases (which would include bareboat charters) in a number of Australia's more recent treaties (although this outcome has not been achieved in all treaties). While some of the major shipping nations have tax treaties with Australia, many of the largest shipping nations, such as Panama, Cyprus, Greece, Liberia and the Bahamas do not. This is because tax treaties are generally concluded with countries with comparable tax systems to Australia.

Option 1: Maintain existing RWT arrangements.

114. Under this option, no changes to existing RWT arrangements would be made. Australia's domestic RWT rate would remain at 30 per cent and Australia would continue to seek reductions in RWT rates through bilateral double taxation agreements.

Option 2: Provide a RWT exemption for the bareboat charter of ships

115. A qualifying ship would be Australian owned or controlled and registered on either Australia's primary or international shipping registers. While changing the RWT arrangements is intended to increase incentives to hire Australian crew, this option would not specify minimum crew requirements, and would only require, in the case of an Australian International Registered vessel, that at least the master and chief engineer be Australian residents. This option is estimated to have a cost to revenue of around \$2 million per annum.

Option 3: provide a unilateral RWT exemption for all equipment leases.

116. Under this option, a RWT exemption would be provided under domestic law for all equipment leases. Such an exemption is currently only available through some of Australia's most recent bilateral double taxation treaties. Under this exemption, equipment lease payments for a range of industries (including shipping, airline and mining industries) are exempt from RWT. This option is estimated to have a cost to revenue in the order of \$40 million to \$60 million per annum over the forward estimates.
117. It is worth noting that Australia has concluded exchange of information agreements with a number of shipping countries, including the Bahamas, Marshall Islands and the Isle of Man. These limited agreements support the integrity of the Australian tax system by allowing the exchange of taxpayer information between the relevant tax authorities, but do not contain rules governing the treatment of payments for the lease of equipment.
118. The preferred option is to remove RWT for the bareboat charter of ships as this represents a small cost to revenue and will be targeted at the shipping industry only, consistent with the policy objective of revitalising the shipping industry. Option 2 will also retain a significant proportion of the current RWT arrangements, minimising the cost to revenue and retaining their availability for any future tax treaty negotiations.

3.3.4 Seafarer taxation

119. The proposed seafarer taxation reform package is intended to provide personal tax exemption status for any income earned overseas by an Australian resident seafarer on a qualifying internationally voyaging vessel. The reform is aimed at increasing the opportunities for Australian seafarers to gain maritime skills: under international conventions this involves mandatory 'sea time' experience, and contributing to the ability of the Australian shipping industry to be competitive in the international trades).

120. The proposed model is as follows:

- "Qualifying period" is the time spent on a qualifying ship whilst overseas.
- A "qualifying vessel" is one that is operated by an Australian resident who is engaged in the international trade.
- Seafarers will not be liable for tax once they have spent > 91 days working overseas on a qualifying vessel. These days are cumulative; they do not need to be continuous. An amount equivalent to the tax they are not liable to pay will be refunded to the employer, thus reducing the cost to the employer of employing Australian seafarers.
- Seafarers will be defined as 'a master, deck officer, integrated rating or engineer employed or engaged on board a qualifying ship in connection with the navigation or working of the ship.'

3.3.5 Training requirement

121. In addition to fleet building, fiscal support measures, including tonnage tax schemes, are used by many overseas jurisdictions to promote the creation of new training positions for their seafaring nationals. The proposed measures in this package also require the creation of training positions in participating fleets.

122. These positions would be negotiated with companies seeking access to the fiscal benefits of the tonnage tax regime but include some minimum requirements in the legislation. This minimum company requirement may require further consultation with industry and unions. Further detail is provided under 'Workforce Capability Measures' below.

3.4 Australian International Shipping Register

123. The proposed AISR is designed to increase Australia's involvement in the international trades by offering a registration option that is globally competitive and highly regarded.

124. An international register would have the following characteristics:

- Vessels to be Australian owned or operated by companies which have their principal place of business in Australia;
 - Mixed manning (i.e. Australian and foreign crew) with the ability to employ non-Australian seafarers under terms and conditions that are internationally competitive and meet the requirements of relevant international conventions, unless the ship is engaged in the coastal trade in which case all crew would be covered by Fair Work legislation;
 - Required to employ a minimum of two Australian citizens (or permanent residents), desirably in the positions of Master and Chief Engineer but with scope to employ Australian resident seafarers in the event that, despite best endeavours, the employer cannot fulfil the Master/Chief Engineer requirements;
 - Allowed to access the fiscal incentives, subject to the training obligation eligibility requirement;
 - Covered by the *Fair Work Act 2009*, *Occupational Health and Safety (Maritime Industry) Act 1993* and the *Seafarers Rehabilitation and Compensation Act 1992* while the vessels are engaged in trading in Australian coastal waters;
 - Exempt from the *Fair Work Act 2009* while engaged in overseas voyages. Crew will be employed under terms and conditions of employment which are internationally competitive and meet the requirements of International Labour Organisation conventions and other relevant conventions that Australia is a signatory to. Amendments to relevant legislation will be made to apply the requirements of the *Maritime Labour Convention 2006* to AISR vessels when they are engaged in international trade. This will ensure Australia will remain compliant with MLC requirements even if the *Fair Work Act* is dis- applied;
 - Covered by the *Occupational Health and Safety (Maritime Industry) Act 1993* but excluded from coverage by the *Seafarers Rehabilitation and Compensation Act 1992* when engaged in an overseas voyage. Seafarers on AISR vessels will have access to workers compensation arrangements from a commercial provider to the standard not less than that provided in the *Maritime Labour Convention 2006*; and
 - Maintaining the same safety and environmental standards as apply to primary (or first) register vessels.
125. Mixed manning will be the key benefit offered to ships registering on the AISR. Under the proposal, two senior positions, preferably that of the Master and Chief Engineer must be filled by Australian citizens or residents. Any other positions on the vessel may be filled by foreign seafarers. When the AISR vessel is undertaking an overseas voyage, all crew members (regardless of nationality) may be employed under internationally competitive terms and conditions of employment consistent with the *Maritime Labour Convention* and other international conventions to which Australia is a signatory. The requirements of the *Fair Work Act* including wage rates will apply to AISR seafarers (regardless of nationality) when the vessel is engaged in trading on Australian coastal waters.

126. AISR vessels will be also able to access the proposed financial incentives which together with the cost savings achieved through mixed manning, will address the cost differential that exists between Australian and foreign registered vessels.
127. The ability of Australian-based companies to bareboat charter vessels for use on the AISR will help mitigate risks associated with the establishment of new shipping services. Such settings are consistent with the policies of other major maritime nations and are considered essential for global competitiveness and facilitating the opportunity for Australia to build its maritime cluster, replace freight payments to foreign shipping companies with freight payments to Australian shipping companies, collect taxation revenues from both companies and seafarers, and increase our pool of maritime skills.
128. Critically there will be no diminution of current safety and environmental standards as currently applied on the primary register. The Australian register has an excellent reputation within the global maritime community, which provides a significant competitive advantage in an industry that relies on a risk management approach for financing and insurance matters.
129. Registration of a vessel on the AISR will require a genuine link to Australia. It will be required that a vessel to be registered on the AISR will either be Australian-owned or operated by an Australian operator. This requirement will ensure Australia complies with the UN *Convention on the Law of the Sea* (UNCLOS) requirement that there must a genuine link between the State and the ship registered in its territory.
130. An 'Australian operator' is defined in subsection 16(5) of the *Navigation (Coasting Trade) Regulations 2007* and includes ship that is operated by:
- a person who is a resident of, or has his or her principal place of business in, Australia; or
 - a firm that has its principal place of business in Australia; or
 - a company that is incorporated, or has its principal place of business, in Australia.
131. Current minimum workforce standards, crew competencies, numbers and conditions will be the same as those applied on the primary national register. Seafarers with foreign qualifications and experience, for example, will need to be certified by AMSA in order to work on an AISR vessel.
132. The AISR will be subject to the same environmental and safety requirements as Australian first register vessels. Maintaining these standards will demonstrate Australia's commitment to a

world's best practice quality flag, an important principle that will also be a highly marketable feature of the AISR.

133. It is proposed that a separate administrative unit within AMSA will be established to administer the AISR. This unit will handle all matters in relation to the administration of the register. This is expected to include the processing of applications, collection of fees, vetting of members and the provision of assistance as required. AMSA will also provide vetting of foreign seafarers on Australian vessels in order to ensure their qualifications meet Australian standards. Cost recovery arrangements will need to be put in place.
134. In order to establish the AISR, new legislation may be required and/or amendments made to the *Shipping Registration Act 1981*. The legislative requirements will be developed in consultation with the Attorney-General's Department, the Australian Government Solicitor and Department of Tertiary Education, Skills, Jobs and Workplace Relations.

3.5 Workforce Capability Measures

135. Under a broad strategy of increasing the number of Australian seafarers by creating more opportunities and securing a broad skills base that will sustain the maritime industry into the future, the Minister announced as part of the proposed reforms, the intended establishment of a Maritime Workforce Development Forum (MWDF).
136. To achieve its best effect, a MWDF would comprise high level representation from across the breadth of the maritime industry and relevant government agencies who are able to:
- provide the Government with analysis and advice on key strategic issues affecting workforce development in the maritime industry;
 - make the strategic and operational links across industry(ies) and government(s) to progress maritime skills issues;
 - work collaboratively across industry and government to better articulate and explain the critical nature of the maritime skills issues; and
 - act with and through the relevant Government agency, to implement requests and directions of the Minister.
137. Initially, the Forum could be tasked with progressing the key recommendations arising from the Industry Reference Group:
- Identifying an agreed, mandatory training requirement for shipping operators to train seafarers, in order to remain eligible for the new tax regime.

- **Workforce planning**
To ensure the Maritime industry has access to appropriate and adequate workforce information to assess and plan for future workforce needs, a coherent program of gathering accurate and up to date workforce data needs to be coordinated. An analysis of that data would feed into a workforce plan that caters for the development, training and appropriate placement of skilled workers into the medium term.
- **Workforce training systems**
The Forum can work to provide a maritime training system that is fit for purpose, equitably and appropriately funded and responsive to industry requirements and to change. The Forum would work with the Transport and Logistics Industry Skills Council in reviewing the maritime skills package; supporting the finalisation of a Memorandum of Understanding between the three major accredited maritime training providers to facilitate the delivery of maritime skills on a national basis; and coordinating, improved industry access to existing government skills and training initiatives.
- **Maritime Training Certification**
Working with the Australian Maritime Safety Authority to provide a robust, transparent and responsive framework for the development and oversight of maritime certification, qualifications and training that can delivery workforce capability into the future, including on the finalisation of Marine Order 3.

The training obligation under the proposed taxation incentives.

138. The Discussion Paper put forward a proposal that business be required to train at least one new cadet (ie an officer or engineer) per year, for every ship in an operator's fleet, to remain eligible for the taxation incentives.
139. The key issues emerging from the Minister's Industry Reference Group were:
- The current lack of workforce data does not support decision-making;
 - The exponential nature of the proposed obligation would impose high costs, particularly as training requires a mix of land and sea-time, imposing travel, accommodation and associated costs;
 - Training does not ensure employment in the Australian maritime industry; employers have quoted up to 50 per cent of their trainees being 'poached' by other industries; and
 - The exponential nature of the obligation could result in safety issues, with trainee to supervisor ratios exceeding standards, and imposing additional costs in terms of finding berths on ships.
140. Until the MWDF can determine an agreed obligation, an interim measure could see a training requirement agreed and imposed through a condition of a licence sought by an Australian registered vessel owner. That requirement could be agreed as part of the granting of a licence to operate and could consider a number of factors or options, such as:

- a ratio of trainees to staff (eg 1:20) or ratio of trainee to supervisor;
- a minimum number according to known company or industry needs;
- by classification (officer, engineer or integrated ratings), according to company needs;
- the training history of the company;
- the skills requirements of the company;
- the company's workforce plan;
- the broader skills requirements of industry; and/or
- the availability of berths across a company's ships.

141. For transparency and guidance, these considerations could be included in regulation as part of the assessment criteria for licence applications. The extent of training to be provided annually could be nominated in the application for a licence, with appropriate supporting justification. A 'negotiated' outcome could be agreed as part of the assessment of a licence and would be reported on and monitored as part of the ongoing operations undertaken by the licensed operator.

142. Once industry-wide workforce planning data is available, a number such as that proposed in the Discussion Paper may become more readily apparent and could be applied more broadly across Australian registered operators. Consistent with the entire reform package, the efficacy of the training obligation would be reviewed after five years.

3.6 Compact between Industry and Unions

143. A compact between industry and unions to deliver productivity and efficiency reforms is envisaged to better align practices in the Australian shipping industry with international best practice. This would include but not be limited to:

- Ship based cost reduction targets, including work practice productivity and efficiency gains;
- The development of a process to review minimum manning levels by shipowners, the maritime unions and the Australian Maritime Safety Authority, to determine the optimum operational crewing levels on board vessels that do not compromise safety or environmental outcomes; and
- The introduction of riding gangs on board vessels involved in the coastal trade to undertake additional maintenance at terms and conditions of employment established under the *Fair Work Act*.

144. A number of existing agreements between shipping companies and unions already embody some or all of the reforms described above while others provide framework agreements under which the issues can be progressed. It is intended to extend these reforms to other parts of the domestic fleet.

4. IMPACT ANALYSIS

145. The Bureau of Infrastructure, Transport and Regional Economics (BITRE) was asked to undertake a cost-benefit analysis (CBA) of the proposed shipping reform package. BITRE's assessment incorporated the main features of the package:

- A new licensing system for accessing the coastal trades that features:
 - General Licences available to Australian registered vessels and, for a five-year transitional period, to current licensed foreign flagged vessels;
 - a new category of Temporary Licences for ships operating regularly in specific trades for periods up to 12 months and for trades with less certain regularity of movement for a defined number of voyages (empty ship to empty ship); and
 - abolition of continuing and single voyage permits.
- Establishment of an Australian International Shipping Register (AISR) whereby ships can have foreign crews with the exception of two senior Australian officers. The Australians are exempted from personal income tax where the crew spend over 91 days in international waters, with the equivalent in tax rebating to employers;
- Company tax concessions on shipping income for Australian shipping companies;
- Abolition of the 30 per cent royalty withholding tax on ships bareboat chartered from overseas; and
- Assumed productivity improvements on Australian ships including reduced manning levels.

146. The new policy is assumed to commence on 1 July 2012. Benefits are estimated over 20 years from 2011/12 to 2030/31 inclusive and measured in 2009/10 prices. The discount rate used is 7 per cent and a long term average (over the analysis period) exchange rate of A\$1 = US\$0.9.

147. The coastal shipping freight task was divided into a number of sectors: bauxite; iron ore; 'other' dry bulk (eg cement, fertiliser); petroleum; other liquid bulk; containers; and crude oil.

148. For three of these sectors, there are no benefits or costs to consider:

- Containers: The policy applies to, but is assumed not to affect coastal containers carried using spare capacity by foreign overseas-going container ships that call at Australian points to load and unload international containers.
- Intrastate shipping of bauxite: The policy does not apply to intrastate voyages. Bauxite from Weipa to Gladstone (shuttling back and forth) therefore continues to be carried by foreign ships.

- Crude oil: Regardless of whether the proposal is implemented, crude oil shipped between coastal ports is assumed to be carried entirely by foreign ships. The tonnage is forecast to fall by 5 per cent per annum over the analysis period. After 2026, there is too little coastal crude oil to fully employ a single oil tanker (assuming 50 per cent empty back loading voyages). The prospect of an Australian registered crude oil carrier on the coast is therefore considered small.

149. In the base case (without the policy change):

- The tonnages of freight carried by Australian ships were assumed to remain unchanged from their 2009/10 levels over the analysis period;
- Foreign ships under permit would carry the residual, including all growth. Hence, in growing sectors, Australian ships gradually lose market share.
- There are no productivity improvements such as those envisaged under the Compact;
- Existing licensed foreign ships with Australian crews are assumed to have the same cost structure as for Australian ships. These are expected to be replaced with Australian ships over the next five years, but this change does not enter into the CBA because it does not affect shipping costs.

150. In the policy case, permits are replaced with Temporary Licences. Although Temporary Licences are issued according to regulation, the extent to which the new system will increase the share of coastal cargoes carried by Australian ships at the expense of foreign ships under Temporary Licences is difficult to predict. It will depend on the circumstances of individual shipping trades, the attitudes of shippers towards substituting Australian ships for foreign ships and the strength of the regulatory regime with regard to issuing or withholding Temporary Licences.

4.1 Methodology

151. The methodology in the present study consists of the following steps:

- List all ship types in base and policy cases and make assumptions about factors affecting their costs.
- Estimate vessel operating costs for each ship type in both financial and economic terms using the BITRE Ship Cost Model.
- Segment the market into broad groups by commodity/trade and/or pack type.
- For each market segment:
 - assume average or typical voyage characteristics for each relevant ship type and estimate a cost per tonne of freight carried
- obtain forecast freight flows

- assume market shares for each ship type in the base and policy cases
 - combine the cost per tonne estimates and market shares to obtain the weighted average cost per tonne in the base case and the policy case, and take the difference
 - multiply number of tonnes of freight in each year by the difference between base case and policy case shipping costs per tonne, and
 - calculate the net present value (NPV)
 - Combine the NPVs for all market segments.
152. By estimating numbers of Australian berths per 1000 tonnes of freight carried in the base and policy cases, the methodology has been used to estimate the impact on employment of Australian seafarers.
153. Changes in freight rates could affect the demand for shipping services as shippers switch to or from alternative transport modes and changes in costs are passed on to consumers who alter consumption in response to price changes.
154. Since sea transport costs usually constitute only a small proportion of the total costs of goods, the impacts on the quantities for freight shipped are likely to be small and have therefore not been included in this study.

4.1.1 Effect of cabotage on voyage patterns

155. The methodology does not allow for differences between voyage patterns in the base and policy cases because it would require detailed information about voyage patterns to estimate. For example, under a more liberal cabotage policy, a foreign ship may be permitted to pick up a coastal cargo after unloading an overseas cargo at the same or at a nearby port and then carry the coastal cargo as part of its return trip overseas. Under a tighter cabotage policy, this might not be permitted. Instead, a domestic ship dedicated to the task might have to undertake a return trip in ballast. By restricting opportunities for shippers of coastal cargoes to engage foreign ships that happen to be nearby, tightening the cabotage policy is likely to lead to additional empty voyages for both Australian and foreign ships. Empty voyages mean additional fuel consumed as well as ships' time.
156. With a tighter cabotage policy, Australian shippers of domestic freight incur higher costs from lost opportunities to take advantage of cheap transport in passing foreign ships and having to pay for empty repositioning voyages by domestic ships. Part of the cost of empty voyages by

foreign ships may be passed on in the form of higher freight rates to the Australian exporters and importers that employ the foreign ships to carry their international cargoes.

4.1.2 Regulatory and compliance costs

157. The CBA omits regulatory and compliance costs. They are believed to be very small. A small number of additional government staff may be required to administer the international register.

4.2 Key Assumptions for Ships

158. Table 6 shows the list of ship types for the base and policy cases and assumptions.
159. There are two types for the base case: Australian registered ships (B1), which have all-Australian crews and foreign ships (B3). Crews on Australian ships are paid at Enterprise Bargaining Agreement (EBA) rates, which are well above award rates. Foreign ships are assumed to pay crews at International Transport Federation rates. Crews on Australian ships receive 0.926 days of leave for each day at sea. Foreign crews receive variable amounts ranging from 7 days leave for every 30 days worked for ratings from low-wage countries to one day leave for each day worked for senior officers. Australian registered ships operate for some 353 days per year on average compared with 360 days for foreign ships because the crews undertake less maintenance work compared with foreign crews, causing the ships to spend longer in dry-dock. Australian ships pay company tax at the normal rate of 30 per cent with depreciation over 20-years. Foreign ships are assumed to pay no company tax because they are often registered in open-registry countries or, if not, receive highly favourable tax treatment or subsidies from their governments. Australian ships in the base case incur an additional \$1 million in capital cost to meet higher standards of accommodation.
160. A third ship type that carries coastal freight, foreign licensed ships, has been omitted from the table altogether. There are currently about 18 such ships on the coast. These are registered overseas and are manned with foreign crews. However, their costs are not far below those for Australian registered ships because the foreign crews are employed under the same conditions as Australian crews, including being paid at EBA rates. Foreign licensed ships are being phased out in the both the base and policy cases over the next five years. Hence, their presence makes no difference to the CBA. For this reason, and the fact that they have practically identical costs to Australian ships, they have been treated as if they were Australian registered ships in the base and in the policy cases.
161. In the policy case, there are two Australian ship types and one foreign type. Australian ships in the policy case have lower costs due to productivity gains anticipated under the negotiated

compact between industry and unions. These productivity gains result from reductions in crewing numbers, fewer days per year in dry dock due to maintenance work being undertaken by 'riding gangs', and lower accommodation standards on new ships. The latter removes the \$1 million capital cost disadvantage of Australian ships. A 'riding gang' is a group of lower-skilled workers who work on the ships for limited periods of time.

162. Existing Australian ships are assumed to achieve the full extent of the productivity gains on 1 July 2012 and so have identical crew and other operating costs to new ships. BITRE has been advised that negotiations between shipowners and unions to achieve productivity improvements are already underway.

Table 6: List of ship types and key assumptions

Base case				Officers			Ratings			
Code	Description	Operating day per year	Reduced crew size	Nationality	Wage rates	Pay income tax	Nationality	Wage rates ³	Pay income tax	Riding gang
B1	Australian	353	no	Australian	EBA	yes	Australian	EBA	yes	no
B3	Foreign: permit & overseas going	360	no	foreign	ITF	no	foreign	ITF	no	no
Policy case				Officers			Ratings			
Code	Description	Operating day per year	Reduced crew size	Nationality	Wage rates	Pay income tax	Nationality	Wage rates ³	Pay income tax	Riding gang
P1	Australian register: general licence: existing and new entrant	360	yes	Australian	EBA	yes	Australian	EBA	yes	Yes
P2	Australian international register	360	no	2 Australian, others foreign	EBA for Aust(3); ITF for others	no	foreign	ITF	no	no
P3	Foreign: temporary licence	360	no	foreign	ITF ³	no	foreign	ITF ³	no	no

(1) EBA = Enterprise Bargaining Agreement, ITF = International Transport Federation.

(2) The riding gang travels with the ship for part of the year and carries out maintenance tasks. They are assumed to be low-skilled workers paid at less than integrated rating levels.

(3) EBA rates represent a proxy for the market rates which Australian officers employed on AISR vessels would likely obtain.

(4) Crews on foreign ships with temporary licenses must receive Award B wage rates and conditions. It has been assumed that ITF rates and conditions are at least equal to award B rates and conditions. Hence crewing costs of P3 vessels are assumed to be identical to B3 vessels.

163. Australian international register (AISR) ships (P2) require at least two senior officers to be Australians. It is assumed that Australians fill the positions of Master and Chief Engineer. Exemption from income tax for these positions with the tax rebated to the employer reduces the salary cost to the shipowner to the after-tax salary.

4.3 Estimation of Ship Capital and Operating Costs

164. Table 7 shows a simplified structure of ships' costs. The reform package affects the time charter components of costs. With voyage patterns assumed to be the same in the base and policy cases, fuel and port costs are assumed to be identical regardless of the ship's flag and crew nationality.
165. The BITRE Ship Cost Model was used to estimate financial and economic time charter costs for each ship type for both the base and policy cases. Table 8 sets out the daily time charter economic costs for representative ship types and sizes assumed in the analysis.
166. 'Financial costs' are the costs incurred by the ship owner. Economic agents base their decisions on financial costs. 'Economic costs' are used to measure benefits and costs in CBAs because CBA aims to estimate the net economic gain to society as a whole. In the present analysis, financial costs were used in a few cases to test the commercial realism of some of the assumptions. Only the crew and capital cost components differ between the financial and economic costs.

Table 7: Simplified structure of ships' costs

Category			Proportional to
Time charter	Operating	crew (salaries, on-costs)	time operating (sailing and in port)
		other (victualling, stores, administration, insurance, repairs and maintenance, provision for dry docking, lubricating oils, riding gang)	
	Capital (purchase price, loan repayments, interest, company tax, depreciation, bareboat charter costs, tonnage tax)		
Fuel			time sailing
Port	Ship-based	(conservancy, tonnage dues, pilotage, towage, mooring/unmooring)	port visits
		(berth charges)	time in port
	Cargo-based (wharfage charges, harbour dues, stevedoring)	cargo loaded/unloaded	

Table 8: Estimated daily time charter costs by ship type for base and policy cases (\$ per day, economic costs)

Code	Description	Handy size bulk carrier	Panamax bulk carrier	Capesize bulk carrier	Product tanker	Product tanker	Crude tanker
		30 000 dwt	76 000 dwt	170 000 dwt	20 000 dwt	40 000 dwt	100 000 dwt
Base case							
B1	Australian	26,161	30,265	40,936	29,550	36,254	38,944
B3	Foreign permit & OS going	16,102	19,335	28,785	17,243	22,786	25,111
Policy case							
P1a	Australian register: general licence: existing and new entrant	22,769	26,479	37,353	25,557	31,870	34,476
P1b	Australian general licence: new entrant: bareboat charter	21,882	25,276	35,041	24,607	30,286	32,576
P2a	Australian international register: Aust master & chief eng	17,758	21,383	32,093	19,201	25,441	28,067
P2b	Australian international register: Aust master & chief eng: bareboat charter	16,871	20,180	29,782	18,250	23,858	26,167
P3	Foreign: temporary licence	16,102	19,335	28,785	17,243	22,786	25,111

4.3.1 Crew costs

167. Crew costs are estimated from the crew composition and salary rates, multiplied by a factor for leave and on-costs (2.982 for Australian seafarers, 2.0 to 2.4 for foreign officers and 1.48 for foreign ratings). For Australian international register ships, the Australian officers' salaries are net of income tax. Economic costs are not affected by the tax exemption. The pre-tax wage rate represents the opportunity cost of labour because, in economic theory, assuming competitive markets, employers will employ labour up to the point where the 'value of marginal product' equals the cost to the employer. Hence, the pre-tax wage rate represents the value of the output the seafarer would produce if he or she were instead employed in their next best alternative use in the economy.
168. Wages and conditions for Australian seagoing labour are believed to be above opportunity costs. In CBAs, a 'shadow price' is used in cases where market prices differ from opportunity costs. Financial crew costs for Australian seafarers have been multiplied by a shadow price factor of 0.9 to obtain economic crew costs.

4.3.2 Capital costs

169. The financial annualised capital costs estimated by the BITRE Ship Cost Model are known in the shipping economics literature as 'required freight rates' (RFRs). The RFR is the amount of money the ship owner needs to receive in real terms in each year of the ship's life to earn a given rate of return on capital invested, assumed in the BITRE Shipping Cost Model to be 5 per cent. The model estimates after-tax cash flows for each year of the ship's life (20 years) and discounts them to the present at the assumed after-tax real rate of return. The present value is converted to an annuity at the same discount rate over the ship's life to obtain the after-tax real RFR. Dividing this by one minus the company tax rate (30 per cent) gives the before-tax RFR. It is assumed that the ship owner has sufficient profits from other sources to take full advantage of depreciation tax deductions in the year they become available.
170. The discounted cash flow calculation assumes the ship is purchased with a loan on favourable terms of the type offered by governments of major shipbuilding nations—65 per cent of the ship's cost repaid over ten years at a 4 per cent interest rate (reducing in real terms due to 3 per cent annual inflation), with equal amounts of the principal repaid every six months along with interest on the outstanding balance.
171. For the CBA, the economic cost of capital is required—the amount the capital would earn before tax if invested in its next best alternative use. The discount rate of 7 per cent represents the social opportunity cost of capital. The cash outflows to foreigners to purchase the ship are discounted to the present at 7 per cent per annum (\$0.8767 for each dollar of the

ship's purchase price after deducting the present value of the scrap value). To obtain the annualised economic cost of capital, this present value is annuitised over the 20-year life of the ship at the 7 per cent discount rate (\$0.0828 for each dollar of purchase price). It is important that the same 7 per cent rate be used so the NPV is not affected by the fact that some of the shipping costs are not actually incurred in the same year they appear in annual benefit estimates.

172. The company tax concessions in the policy case reduce financial capital costs, but have no effect on economic capital costs.
173. In practice, not all ships joining the Australian fleet will be purchased new from shipyards. Some will be mid-life vessels purchased second-hand. The purchase price of a second-hand vessel of a given age and the cost of purchasing an identical new vessel are closely linked. The model calculates the required freight rate for a new ship from the purchase cost over the entire life of the ship. In theory, this should be the same as the required freight rate for an identical second-hand ship calculated over the remaining life of the ship. So it should make no difference to the estimated required freight rate whether the ship is new or second hand. In practice, new ship prices and second hand prices fluctuate over time and only approximately together, but the underlying linkages should remain for the long-term averages.
174. In the base case, there is a 30 per cent 'royalty withholding tax' on payments for bareboat charters to foreign owners that would be abolished under the reform package. As the tax makes bareboat chartering expensive compared to purchase, it has been assumed that in the base case, no Australian ships are bareboat chartered. Without the tax, bareboat chartering is an attractive option. In the policy case, it is assumed that half of the Australian shipping tonnage in each market sector is bareboat chartered. In Table 8, separate economic costs are provided for Australian owned and bareboat chartered ships, designated *a* and *b* respectively.
175. For bareboat chartered ships, in the policy case, it is assumed that, with the royalty withholding tax removed, competition prevents the foreign shipowner from obtaining a higher charter rate. The Australian charterer is able to obtain the ship at an annual cost equal to the annualised capital cost of a foreign ship as estimated by the BITRE Ship Cost Model. It is also equal to the financial cost of an Australian ship in the policy case with zero company tax and tonnage tax. However, at an annual cost of \$0.0723 for each dollar of purchase price, it is lower than the economic capital cost of the Australian ship of \$0.0828 for each dollar of purchase price (opportunity cost of capital at the 7 per cent discount rate).

176. Another capital cost concession proposed in the shipping reform package is 'roll-over relief'—postponement of tax from the sale of an existing ship where its sale price is greater than its written down value but the gain is used to purchase a new ship. The benefit to the shipowner in each case depends on the written-down value of the ship being replaced and its sale price. From a CBA point of view, the direct impact of roll-over relief is irrelevant because it is simply a transfer from the government to the shipowner. It could affect the timing of replacement of existing ships.

4.3.3 Training costs

177. The package requires ship operators to enter into a training commitment to remain eligible for the taxation incentives'. Training costs for cadets are not included on the grounds that there will be unquantified benefits at least equal to the costs.

4.3.4 Foreign ship costs

178. Cost benefit analysis is usually undertaken from a national point of view. Only costs and benefits to Australians are taken into account. Costs and benefits to foreigners are ignored. The opportunity cost of foreign shipping to Australia is the amounts paid to the providers of those services converted to Australian dollars. Hence, the economic costs of foreign ships are the same as the financial costs.

179. Freight rates paid for the services of foreign ships are determined by market conditions as well as costs. The foreign ship costs estimated by the BITRE Shipping Cost Model are synthetic costs intended to approximate the long-term average of freight rates.

180. The costs for foreign ships in overseas trades and on coast with permits are estimated for an open registry ship paying International Transport Federation (ITF) wages and paying zero company tax. BITRE data indicates that, for Australian coastal cargo carried under permits in 2008/09, open registry vessels accounted for 46 per cent of voyages and 63 per cent of tonnage.

181. Many non-open registry ships would be paying their crews above ITF rates. However, they would receive financial assistance from their governments. Otherwise, they could not compete. The relevant foreign costs for the CBA are net of financial assistance from foreign governments.

182. Also, there would be many non-open registry ships paying their crews at rates comparable to ITF rates and receiving generous company tax concessions. A further 34 per cent of permits by voyage and 23 per cent by tonnage are for low-cost ships flying the following flags: People's Republic of China, Danish International, Hong Kong, Norwegian International, Philippines, Russian Federation, Singapore, Turkey, and Vietnam.
183. The open registry ship paying ITF rates and zero company tax represents a bench mark for foreign ship costs, including high-cost non-FOC ships receiving government assistance, and low-cost non-FOC ships.
184. Foreign ships are assumed to be purchased under the same conditions as for Australian ships and to earn the same rate of return 4.9315 per cent. So the financial capital cost of a foreign ship is the present value of cast outflows to purchase the ship discounted at 4.9315 per cent (\$0.9087 for each dollar of the ship's purchase price after deducting the present value of the scrap value), annualised over 20 years at the same rate (\$0.0723 for each dollar of purchase price). This compares with a required freight rate for the base case Australian ship of \$0.0828 for each dollar of purchase price for the same after-tax rate of return.
185. Open registry countries charge shipowners tonnage taxes and other fees. For the two of the largest open registry countries, Panama and Liberia, these amount to around A\$10,000 per annum, which is about 0.2 to 0.4 per cent of estimated annual capital costs for open registry ships. Because they are so small, they were not included in the foreign ship costs.¹⁹
186. The foreign crew members on Australian international register ships would be employed in accordance with the Fair Work Act 'applying terms and conditions of employment that are internationally competitive'. BITRE has been advised that these can be assumed to equate to the ITF wages and conditions used for modelling foreign ship costs.

4.3.5 Use of Australian International Shipping Register (AISR) ships

187. Under the proposed policy, AISR ships are not eligible for general licenses to carry coastal cargoes and receive no preferential treatment in granting of temporary licences. The expectation is that AISR ships will operate primarily in international trades. Although their

¹⁹ The basic tonnage tax for Panamanian and Liberian registered vessels is US\$0.10 per NRT per annum. Panama also charges a 'consular tasa' of US\$3000 per annum. Liberia also charges a flat annual fee of US\$3,800.00 per vessel. There are also some fees for inspections and regulatory costs on which BITRE was unable to obtain information.

after-tax capital costs and their manning costs for all but two crew members are the same as for foreign ships, AISR ships still have higher costs than foreign ships according to the BITRE Shipping Cost Model. Even after rebating personal income tax to the employer, the two Australian crew members cost more to employ than the equivalent foreign crew members. Some components of non-crew operating costs also remain higher. So it is possible that no AISR ships will ever come into existence, and this is assumed in one scenario.

188. In the contrasting scenario, it is assumed that AISR replace foreign vessels operating on 'triangular' routes that combine coastal and overseas voyages. At present, bulk carriers take coal from Australian east coast ports to Asian ports and on the return voyage carry either iron ore from Port Hedland to Port Kembla or bauxite from Weipa to Gladstone. Exclusively coastal and exclusively overseas-going ships performing these tasks spend half their sailing time in ballast. By reducing the proportion of sailing days in ballast, ships on triangular voyages reap significant cost savings.
189. The cost differential between AISR and foreign ships is greater for economic costs than for financial costs because the tax concessions in the reform package do not reduce the opportunity costs of labour and capital.
190. BITRE made estimates for four scenarios representing points along a continuum of possible futures with increasing tightness in the issue of temporary licences. This would result in increasing levels of cabotage.
 - Scenario A
 - There is no replacement of foreign temporary licence ships with Australian ships. The same quantities of freight carried by permit ships in the base case are carried by temporary licence ships in the policy case.
 - No AISR ships are assumed to come into existence. Despite the cost and tax advantages of AISR ships, their financial costs are still above the levels of foreign ships albeit by a small amount, so there is no reason to use them.
 - Scenario B
 - In the 'other dry bulk', petroleum products and 'other liquid bulk' sectors, Australian ships gain an additional 10 per cent of total freight tonnage from foreign temporary licence ships after five years.
 - The quantity of freight carried by Australia ships rises linearly for the first five years and remains constant for the rest of the analysis period.

- AISR ships are used in the triangular trades carrying coastal freight and coal to Asia (Weipa to Gladstone bauxite, Queensland/NSW to Asia coal, Asia to Weipa empty) (Port Hedland to Port Kembla iron ore, NSW to Asia coal, Asia to Port Hedland empty).
 - AISR ships carry a one-third share of coastal freight carried on triangular voyages with foreign ships accounting for the other two-thirds.
- Scenario C
 - As for scenario B but Australian ships gain 20 per cent of the total freight tonnage in the 'other dry bulk', petroleum products and 'other liquid bulk' sectors.
 - AISR ships achieve two-thirds shares of the bauxite and iron ore triangular trades.
- Scenario D
 - Use of foreign ships in the 'other dry bulk', petroleum products and 'other liquid bulk' sectors is phased out altogether over the first five years.
 - The quantities of freight carried by foreign Temporary Licence ships fall linearly to zero over the period to 2016/17 and remain at zero thereafter.
 - AISR ships gain all the bauxite and iron ore triangular trades.
191. The combined net present value (NPV) of the economic cost of the package is estimated to be a gain of \$192 million under scenario A. Smaller gains occur under scenarios B and C and a loss of \$202 million under the scenario D. Table 9 provides details.

Table 9: Forecast growth rates and net present values of benefits by scenario and market segment

Market segment		Forecast growth rate	A	B	C	D
		(% pa)	Net present value (\$m)			
Dry Bulk	Bauxite (AISR ships on triangular voyages)	3.5	0	-16	-33	-49
	Iron ore (AISR ships on triangular voyages)	0.0	0	-10	-16	-25
	Other iron ore	0.0	15	15	15	15
	Other dry bulk	2.0	130	96	61	-80
Liquid Bulk	Petroleum products	1.0	30	18	5	-63
	Other liquid bulk	1.5	16	13	9	-1
Total NPV			192	116	42	-202

(1) The table shows benefits for six sectors. The three sectors omitted are bauxite carried by intrastate ships shuttling back and forth between Weipa and Gladstone, crude oil and containers carried by overseas-going containerships in spare capacity between

(2) Australian ports (see text for explanation).

(3) Totals may not add due to rounding.

192. The gain under scenario A is explained by the lower economic costs of Australian ships arising from productivity gains anticipated under the negotiated compact between industry and unions. These productivity gains have been assumed to result in reductions in crewing numbers, fewer days per year in dry dock due to maintenance work being undertaken by riding gangs, lower accommodation standards on new ships. An assumption that half of Australian ships will be bareboat chartered following abolition of the withholding tax also generates benefits. Bareboat chartering from overseas entails lower resource costs than ownership by Australian companies because foreign owners in tax havens, not having to pay income tax, require a lower return than the opportunity cost of capital in Australia.

193. The same gains that accrue under scenario A also accrue under the other scenarios but there are offsetting costs from substituting more expensive Australian ships for cheaper foreign ships. The greater the substitution of foreign temporary licence ships with Australian ships, the greater the costs.

194. In the extreme situation represented by scenario D, the costs more than offset the benefits of the productivity gains resulting in substantial negative benefits. While the company and personal income tax concessions reduce financial costs to Australian shipowners, they do not reduce economic costs. It is for this reason, despite the financial cost of AISR ships being not much greater than for foreign ships, the resource costs of AISR ships are significantly higher than for the foreign ships they replace.
195. The net benefits are identical under all scenarios for the 'other iron ore' trade because there are no foreign ships participating in the base case or policy case so there is no substitution of Australian for foreign ships — only the productivity gains.
196. The government has a clear intention to use the temporary licence system to encourage replacement of foreign ships with Australian ships so some substitution can be expected. Scenarios B and C are therefore considered most realistic. Scenarios A and D can be viewed as sensitivity tests using more extreme assumptions.
197. The CBA does not allow for any changes in voyage patterns that might occur under scenarios with more restricted availability of temporary licences. Tighter application of a cabotage policy would be expected to lead to more empty repositioning voyages by both Australian and foreign ships, with attendant additional costs and carbon emissions.
198. The benefit estimates are based on a large number of assumptions and therefore should be considered indicative. The CBA analysis must be regarded as indicative only as it relies on a very large number of assumptions about futures that are difficult to predict. In particular, uncertainties arise in relation to assumptions made about:
- the cost levels for Australian ships and freight rates charged by foreign ships
 - voyage patterns;
 - ship sizes;
 - future freight growth;
 - the market shares of foreign ships;
 - a 5- year transition period for bareboat chartered tonnage to reach 50 per cent of the domestic shipping fleet for the dry bulk, petroleum products and other liquid bulk trades;
 - the effect of an international register on the composition of the Australian fleet; and

- reductions in the costs of new Australian ships based on lower manning levels and less time in dry dock if riding gangs undertake maintenance work, and accommodation standards on Australian ships being aligned with international standards.

4.4 Employment

199. Table 10 reports the estimated numbers of seafarer jobs created under the different scenarios. With no expansion of the Australian shipping fleet under scenario A, there is a loss of seafaring jobs due to the reductions in manning levels. In the other scenarios, replacement of foreign ships with Australian ships leads to net increases in seafarer employment after an initial fall when the manning level reductions on existing ships take effect. Scenario D might be impractical because of lack of qualified persons to fill the positions created.

Table 10: Estimated number of seafarer jobs created under different scenarios

Year ending	Employment			
	Scenario A	Scenario B	Scenario C	Scenario D
2012				
2013	-60.41	-41.53	-37.23	-23.21
2014	-60.41	-20.58	4.67	81.97
2015	-60.41	-4.96	49.54	195.01
2016	-60.41	15.70	89.88	307.22
2017	-60.41	37.32	135.05	423.08
2018	-60.41	37.69	135.78	438.75
2019	-60.41	38.07	136.55	454.73
2020	-60.41	38.46	137.33	471.03
2021	-60.41	38.87	138.15	487.65
2022	-60.41	39.29	138.99	504.60
2023	-60.41	39.73	139.87	521.89
2024	-60.41	40.18	140.77	539.52
2025	-60.41	40.65	141.71	557.50
2026	-60.41	41.13	142.68	575.84
2027	-60.41	41.64	143.68	594.54
2028	-60.41	42.15	144.72	613.62
2029	-60.41	42.69	145.79	633.08
2030	-60.41	43.25	146.90	652.93
2031	-60.41	43.82	148.05	673.18
2032	-60.41	44.42	149.25	693.84

4.5 Sectoral Impacts

201. The main coastal trades are the movement of bulk cargoes from regional areas such as bauxite from Weipa, gypsum from Thevenard and iron ore from North West Australia. Bauxite movement is dealt with separately above. Coastal shipping is also used to service regional communities in northern Australia and islands off Tasmania and South Australia. There has been a shift over time from the use of Australian vessels operating under licence to foreign vessels operating under permits, but the proposed regulatory changes should have minimal impact on these trades.
202. A revitalised shipping industry is expected to provide more reliable and higher quality shipping services serving regional communities. These trades are currently serviced by Australian flagged vessels with Australian crews and to the extent that vessels qualify for the new tax arrangements, they will incur lower costs. The package is also expected to produce an increased flow of skilled seafarers who can meet demand for shore-based professions such as harbourmasters, pilots and regulators in regional areas.
203. The impact on shippers will depend on shipping costs as a percentage of total transport costs and the extent to which the package results in improved productivity on Australian licensed and crewed ships. The proposed regulatory arrangements should have only a very marginal impact on costs, at least in the short to medium term. As far as the cost of the regulatory arrangements is concerned the cost and administrative effort involved in general and temporary licence applications and reporting will be offset by the absence of the need to submit multiple SVP's (or CVP's) depending on the number of permits currently sought.
204. Analysis of the 2010 (calendar year) permit data shows that the highest user of permits applied for over 200 permits (16 per cent of the total applications). Eight companies had over 50 applications each. These top eight users accounted for some 55 per cent of the total. By contrast, Temporary Licence holders will be required to report to the Department on their operations and against the details provided in their application. A review of the applicant's operations would be undertaken. At each annual application, a review of the applicant's operations (against their reporting) would be undertaken, with a view to understanding the applicant's potential ability to apply for a General Licence.
205. Application, approval and reporting information would be available on the Department's website, taking account of Government reporting and publishing requirements. Transparency of information will promote transparency in decision making and encourage improved planning and development of Australian shipping operations. In the longer term this will also support policy development and regulatory activities.

206. This approach to Temporary Licences provides certainty and clarity for all operators; Australian registered vessel operators can understand what is happening in other sectors of the market, informing their business decisions. Importantly, shippers will also have a better understanding of the shipping market. Operators will have a greater degree of certainty over a longer period of time (currently three months is the maximum). This approach offers the flexibility for a broad spectrum of operation; spot market needs can be catered for while allowing established markets to be serviced effectively.
207. The proposed package is not anticipated to directly result in significantly higher employment of seafarers but over time it should assist in increasing the pool of maritime skills and in overcoming looming shortages of qualified individuals capable of filling land based regulatory and port facilitation jobs such as pilots and harbour masters. The forecast growth in employment is small but provides a better career path for young people wishing to pursue a career in the Australian merchant marine.
208. Small business using shipping to transport either business inputs or finished products that are exposed to import substitution may be concerned about the effects of the policy but the proposed regulatory arrangements will give special consideration to such possibilities. Shippers of containerised cargoes will continue to have access to foreign ships operating under temporary licence.
209. There will be a small additional compliance cost in the completion of a tax return schedule or tax return label subject to the final design. The taxpayers likely to elect into a tonnage tax would probably be from the larger and more sophisticated end of the taxpayer spectrum with competent tax advisers, so it would not be expected that significant training or educational activity would be required.

4.6 Cost of Tax Concessions

210. The cost of the tax concessions to Commonwealth revenue is estimated at \$62 million a year from 2012-13. However if the domestic industry continued to decline, revenue from this source may gradually decline in any case, although the impact would depend on whether full employment is maintained in the economy as a whole. On the other hand revitalisation could see a partial offset over time as more shipping businesses domicile in Australia and there is growth in the supporting cluster of ancillary services, such as ship financing, crewing and commercial support.

211. The key complementary components to these concessions are the training requirement that will be prescribed in regulation (see paragraphs 136 to 139) as part of the regulatory reforms, and the proposed Compact to be negotiated between industry and the unions. While the Compact is an industry rather than a government responsibility it will be important to the overall success of the reforms.

5. CONSULTATION

212. Input from industry and the public on the coastal shipping trade and the proposed reform measures has been gained through a range of mechanisms, including a Parliamentary Inquiry, an industry-based Shipping Policy Advisory Group, a public Discussion Paper and through industry reference groups established by the Minister.

5.1 The Parliamentary Inquiry in to Coastal Shipping and Regulation

213. The Parliamentary Inquiry into shipping reform undertook extensive consultation with stakeholders. It tabled its report (*Rebuilding Australia's Shipping*) on 20 October 2008, having considered 81 submissions from 66 stakeholders to make 14 wide ranging recommendations.

214. The main views of stakeholders for revitalising Australian shipping as represented to the Parliamentary Inquiry can be found at www.aph.gov.au/house/committee/itrdlg/coastalshipping/subs.htm.

5.2 Shipping Policy Advisory Group

215. In February 2009, the Minister formed a Shipping Policy Advisory Group representative of the shipping industry, unions and shippers. The advisory group met three times to discuss matters relating to shipping industry reform. The main views emerging from these deliberations include:

- Fiscal incentives such as tonnage tax, removal of royalty withholding tax from bareboat charter and seafarer income tax exemptions would be critical to the achievement of the vision for the shipping industry and were seen as levelling the playing field and representative of OECD best practice.
- There were substantial issues related to Registered Training Organisations (RTOs) and coordinating the activities of the various stakeholders in seafaring training that needed to be addressed in the Government's reform package.
- Reducing the size of the cost differential between licensed and permit ships would be critical to the success of the reform package.
- An international (second) register would play a key role in the revitalisation of Australian shipping, with key issues relating to the access of international register vessels to domestic cargo. Unlimited access to the coasting trade should be limited to licensed vessels, and international register vessels should only have access if licensed vessels were not available and adequate.

5.3 Public Discussion Paper

216. The Minister for Infrastructure and Transport issued a Discussion Paper on 1 December 2010 outlining in more detail the Government's election commitment to reform the Australian shipping industry.

217. When submissions closed on 31 January 2011, a total of 46 submissions had been received from across the maritime and related industries and from members of the public.

Submissions were received from:

- Industry/representative groups – 11 submissions;
- Research organisations – 3 submissions;
- Training organisations – 4 submissions;
- Shipping / shippers – 16 submissions;
- Government agencies – 2 submissions;
- Land-based maritime industry – 2 submissions;
- Cruise shipping – 3 submissions;
- Unions – 1 submission; and
- Private individuals / other – 4 submissions.

218. Generally, the submissions showed broad support for the intent of the policy to develop an efficient, sustainable and internationally competitive Australian shipping industry. There was not, however, a consistent view across industry on how this could or should be achieved.

219. The key issues focussed around the three main areas of reform and are summarised as:

- Regulatory measures: The intent of the General Licence is broadly supported; some concerns as to the application of the *Fair Work Act* were raised. The need to recognise the legitimate role of foreign ships in the movement of cargo was a clear message, as was the maintenance of what is seen as existing operational flexibility. There is general support for the development of the Australian International Shipping Register.
- Taxation: There is clear support for the taxation incentives, with some questioning of the extent and the threshold criteria of their application.
- Skills: There is strong support for the workforce capability directions and a desire to see action taken, however responses generally indicated that solutions should come from government rather than industry. Clarity around the mandated training requirements attached to the fiscal incentives was also sought.

5.4 Industry Reference Groups

220. As part of the announcement of the proposed reforms on 1 December 2010, the Minister indicated he would establish three Industry Reference Groups to provide advice on how the regulatory, taxation and workforce capability policy measures should be implemented.
221. Membership of the groups was decided by the Minister and each member was invited by him to participate. Membership included peak industry associations (such as the Australian Shipowners' Association, the Australian Mines & Metals Association), the three maritime unions, shipping companies, shippers, VET and tertiary training providers and taxation and financial experts. The Regulatory Group was chaired by a Deputy Secretary of the Department of Infrastructure and Transport; the Taxation Group by a senior official of The Treasury; and the Workforce Skills Group was chaired by an independent consultant with experience in transport and logistics skills issues.
222. An initial meeting of the three groups was held on 8 February 2010 which the Minister attended and addressed. Each of the Groups met several times, further refining their advice on the implementation of the policy measures. A further meeting with the Minister on 30 May 2011 enabled each Group to present its key issues and deliberations.
223. Similar to the previous consultation activities, clear support for the policy intent to revitalise the Australian shipping industry, and to build an Australian maritime cluster, was common to all Groups.
224. While the matters raised and agreed through each of the Groups has informed the development of the reforms as detailed in this document, a summary of each group's discussions has been provided below.

5.4.1 Regulatory Reference Group

225. The Regulatory Group's discussions revolved around their industry's key needs for certainty and flexibility:
- The lack of certainty inherent in the current regulatory framework was cited as one of the main causes of the demise of the Australian shipping industry, as it works to the detriment of both shippers and ship operators.
 - The uncertainty for Australian licensed operators is about whether permits will undermine their current investments and creating a barrier to investing in new ships for the Australian coastal fleet.

- Shippers require certainty that their goods will reach their destination within a reasonable timeframe and at a competitive price and/or that the inputs to their production process are received dependably and on time.
 - Shipping companies require certainty that the investments they make can be utilised in a dependable manner, and that the regulatory (as well as the physical) infrastructure they use has predictable outcomes.
- There was also recognition that there are some shipping interests that are unable or unwilling to increase their Australian presence simply because of overseas parent company controlling financial decisions or because they are locked into long term arrangements in other regimes.
 - A clear message was that Australia must be made an attractive destination rather than ‘forcing’ a local presence through tying flag requirements to the carriage of domestic cargo.
 - There was agreement that a low ‘headline rate’ of tonnage tax and establishing a credible international register that limits the impact of Australian wages and conditions should assist over time in overcoming the difficulties that international companies may perceive.
 - The Group noted also the competitive gap associated with Australian labour costs.
 - Australian companies need to be able to maintain the ability to choose the business model that best suits their operations, recognising that many Australian companies have international parent companies which control financial decisions.
 - There is a critical need for scheduling shipping operations and for having the ability to respond to “just in time” situations. Having access to both Australian flagged and foreign flagged vessels creates dependability of service.
 - Flexibility is also about having access to the ships which best suit shippers’ needs; for example, being forced to use only Australian flagged vessels may mean entrenching ballast voyages with subsequent significant cost increases.

5.4.2 Response to Regulatory issues raised

226. The regulatory framework as detailed in this RIS provides a high level of certainty and clarity for industry: the policy intent is clearer as is the purpose of each licence. Industry will have transparency on licence assessment criteria and processes and in the intended publishing of licence and application data on the Department’s website.

227. The regulatory structure gives a clear presence to Australian vessels and shipping in the domestic trade and begins to build an Australian presence in international trades. But it also recognises that there is a need and place for international ships on the Australian coast and provides clarity around their operations. Foreign vessels will be able to operate flexibly under Temporary Licences in identified markets.

228. The taxation incentives that will offer competitive, ‘best in class’ rates will also provide certainty and a clear investment path, should companies choose to take it. For foreign vessels, there is incentive and capacity (for example in the container trade) to combine coastal and international trades to deliver cost and frequency benefits for Australian coastal shippers.

5.4.3 Taxation Reference Group

229. The Taxation Group focussed largely on the scope and rate of the various taxation incentives in the discussion paper and the key issues included:

- Arguments were made by industry for the tonnage tax regime to be ‘flag blind’, that is to allow operators to flag in another jurisdiction while demonstrating their establishment of a substantive Australian presence through strategic, commercial or crew management operations in Australia.
- There was discussion about the inclusion of the offshore industry in the tonnage tax regime, arguing the offshore industry is the biggest potential part of the Australian maritime cluster, currently using up to 100 vessels.
- Industry’s view is that to attract ships to Australia the fiscal incentives need to match those in Singapore (which has a zero rate of tonnage tax). Industry expressed the view that the European tonnage tax regimes are dated and are losing shipping business to Singapore. If the rate is not competitive the reforms will fail. Worked comparisons were undertaken for a vessel with 20,000 tonnes capacity as shown below in Table 11.

Table 11: Comparison of tonnage tax regimes for a vessel with 20,000 tonnes capacity

Country	A\$
Norway	42,934
Australia	19,710
Germany	13,822
Denmark	12,925
Netherlands	12,277
USA	9,922
UK	9,516
Singapore	0

- The rate of tonnage tax was agreed as needing to match or better those offered overseas, with Singapore considered the premier shipping base for comparison.
- Linked with a competitive tax rate was an inclusive approach to qualifying activities; that is, ring fencing of income taxed at the tonnage tax rate needs to be generous.
- The availability of both taxation concessions (ie tonnage tax and accelerated depreciation) to Australian owner-operators was seen as highly desirable;
- There was discussion about the application of the seafarers tax concession, that is whether it should go to employers or to employees;
- The abolition of the Royalty withholding tax on bareboat charters was supported;
- Additionally industry considered there should be an exemption from dividend withholding tax on dividends paid by an entity to a non-resident shareholder, where the underlying profits have been taxed under the concessional shipping tax regime and that a similar exemption should apply to an Australian resident shareholder.

5.4.4 Response to taxation issues raised

- While the notion of a 'flag blind' regime may encourage wider participation there would be an expectation on the part of taxpayers that a generous fiscal regime should be matched by a commitment to Australian registration.
- Higher wages in the offshore sector allow it to rely on this advantage for its supply of skilled labour although some of the larger firms engage in training activity. If the blue water sector is to continue to be the major source of training (time at sea is required to fully qualify) then it would be appropriate to confine the incentive of the tonnage regime to that sector.
- Moreover both sectors can be argued to be a part of the domestic economy but the existence of temporary licences and an international register will continue to allow for a degree of competition for the blue water sector from the international shipping industry. To that extent the blue water sector should be considered in the context of international trade rather than domestic trade whereas the offshore industry is not trade exposed in the same way.
- The objective is to improve the opportunities for Australian seafarers to gain experience in international shipping. However a very broad concession could see too many of them go overseas. Constraining the concession to the employees of Australian companies meets the development objective and should assist in making the Registers more competitive. The risk of limiting training opportunities is recognised.
- With regard to an exemption from dividend withholding tax and dividend taxes for domestic shareholders, it is considered that while these concessions would be useful to the domestic shipping industry they would breach fundamental tenets of the Australian tax system and the loss to revenue would increase the cost of the fiscal package significantly.

5.4.5 Workforce Skills and Training Reference Group

230. The Workforce Skills and Training Group identified the key issues for industry as being:

- The costs of training: high labour costs and costs associated with the delivery of training, e.g. course costs, travel and accommodation costs for onshore training elements;
- The rigidity and lack of conformity of training structures: each recognised training institution has different timing, sequencing and delivery methods. A strong reliance on 'classroom' teaching imposes costs while more flexible methods such as distance education are not available;
- Regulatory structures that stipulate minimums of time required to become accredited. Regulated requirements don't recognise 'recognition of prior learning' frameworks and can impose additional requirements (beyond accepted international minimums) that add costs to training. The overarching issue was the current need for all seafarers to be trained for bluewater skills, no matter what part of industry they serve, thereby adding costs and limiting career entry points.

5.4.6 Response to workforce issues raised

231. The work of the Maritime Workforce Development Forum (see paragraphs 132-133) will start to build real capacity to understand and fulfil maritime industry skills needs. Clear and agreed workforce data will provide guidance to what skills are needed in each sector of the industry and a real workforce plan that puts in the appropriate structural and strategic elements in place will allow the wider industry to build those skills into the longer term. Coordinated industry approaches to accessing existing funding and other skills initiatives will enable employers and trainers to provide more flexible, focussed and supported training that better suits their needs. Consideration by AMSA of more flexible regulatory structures will provide underpinning support to all these moves.

6. CONCLUSION

232. There has been a decline in the Australian shipping fleet and industry over recent decades, as regulatory drift has allowed a concurrent increase in the number of foreign registered ships and the proportion of coastal trade they carry has increased. As a consequence investment in Australian registered shipping has fallen substantially and is predicted to lead to a situation where there are very few Australian ships within a few years as the aging fleet is retired from service. The strategic consequences of a decline in the domestic maritime industry could be significant for a trading nation such as Australia, particularly for the viability and longevity of its maritime skills base.
233. Our regulatory and fiscal frameworks have not kept up with international trends and market reforms by other shipping nations, and the rapidly changing nature of transport and freight logistics have not been able to counteract that decline.
234. The need to implement a contemporary regulatory and fiscal regime for Australian shipping is compelling. A new licensing structure that supports Australian shipping while recognising the necessary role played by foreign vessels, that is supported by an internationally competitive fiscal regime will work together to revitalise Australian shipping. These actions, together with the establishment of an international shipping register should enable Australian shipowners to significantly reduce the competitive gap between themselves and foreign owners.
235. The regulatory reforms propose a more modern approach to regulating shipping that provides support to Australian registered vessels but while they are strictly inconsistent with the Competition Principles Agreement still continue reasonable and transparent access to coastal trades by foreign vessels. Importantly, the proposed new licensing arrangements are no less competitive than the current permit system.
- The General Licence fulfils a number of key policy intentions, while creating minimal disruption to existing arrangements. It provides clear support for Australian registered vessels, ensures the employment and development of Australian maritime skills and gives business certainty of operations over the medium term. From a policy perspective, it provides a preference to those ship operators and shippers that make a commitment to developing Australian shipping in the future while providing a fall back option should the five year transition to Australian registration prove unsuccessful.
 - Temporary Licences will provide the flexibility that shippers and shipping operators seek, while providing clarity in operations. Shippers will be able to move their more regular cargos under a ship-based approach, while the voyage-based conditions on a Temporary Licence will suit those smaller, less predictable cargo movements.
 - Emergency Licences will be used only in emergency situations.

236. Regulatory requirements will be included in legislation and regulations, removing the heavy reliance on Ministerial Guidelines, abolishing the continual applications for single voyage permits and providing greater certainty to all industry participants. Additional transparency will come from the publishing of data on the Department's website. While the regulatory structure supports the Australian maritime industry, for the first time, Australian registered vessels and all industry operators can begin to understand what is happening in the shipping market and will be able to take up identified market opportunities on clear grounds.
237. The proposed tax measures reflect the global nature of shipping. An exemption from Australian income tax is the preferred option (see paragraphs 95 to 99 for a comparative assessment of an exemption and a tonnage tax) and an income tax exemption will match Singapore (a shipping regime considered to be the premier operating base by many shipping companies) while the approach taken to seafarer taxation is consistent with international approaches. The abolition of royalty withholding tax (see discussion of the options in paragraphs 112 to 116) is not only consistent with international approaches but it is in tune with Australia's approach since 2001 to remove payments for the lease of equipment across a range of sectors.
238. The taxation measures will also provide flexibility in the operation of vessels; the tax exemption measure will allow qualifying ships to conduct a mix of international and coastal voyages without affecting their tax status. They will also provide more certainty to Australian companies regarding their tax liabilities: rather than calculating actual income and deductions applicable, any tax payable will be greatly reduced compared with normal income tax rules.
239. A coherent industry approach to resolving maritime skills issues through the Maritime Workforce Development Forum will help to resolve anticipated longer term difficulties in training and placing qualified Australians in maritime roles. In the medium term, it will act to reduce our reliance on importing skills and will bring flexibility to the training methods and opportunities that will work to ease shortages. It is likely that there will be additional experienced, Australian seafarers to fill both sea and shore based positions in the shipping industry in the medium term.
240. The role of shipping in the domestic freight task has declined steadily over the last 20 years with more and more traffic transported by road and rail. Much of this transfer is due to gradual improvements in infrastructure, faster trip times and door to door convenience, particularly of road transport. A significant test for the proposed policy will be whether the efficiencies derived from new capital investment in an aging fleet and improved labour productivity derived from the Compact lead to a more efficient shipping sector that can perform a greater share of the domestic freight task.

7. IMPLEMENTATION STRATEGY AND REVIEW

241. Once final decisions on the shipping reform package have been made by the Government there will be a further round of consultation on an exposure draft of legislation (both regulatory and taxation reforms), prior to introduction into Parliament.
242. The Department of Infrastructure and Transport will be responsible for coordinating the reforms, working closely with the departments of the Treasury and the Australian Taxation Office (ATO), on taxation issues; Education, Employment and Workplace Relations (DEEWR) and the Attorney General's Department (AGD) on the *Fair Work Act* and the *Seafarers Rehabilitation and Compensation Act 1992* as well as workforce skills issues; Immigration and Citizenship on visa issues for foreign vessel crew; the Australian Customs and Border Protection Service on vessel imports; and the Australian Maritime Safety Authority on establishment of the international shipping register.
243. A dedicated taskforce has been established in the Department of Infrastructure and Transport to develop and implement the policy and legislation. The new regulatory and taxation regimes are anticipated to commencement at 1 July 2012 and will need to accommodate necessary transitional arrangements.
244. Introduction and passage of legislation during the autumn 2012 session of Parliament is envisaged, which will require a determined effort by all parties involved in drafting, consultation and finalising the package of reforms to meet the timeframe. The adoption of an exemption regime rather than tonnage task will aid significantly in meeting the legislative aspects of this timetable.
245. Major elements of the task include:
- legislative changes to replace Part VI of the *Navigation Act 1912* with a new Coastal Trading Bill and the drafting of regulations in consultation with the Treasury, DEEWR, Innovation, Industry, Science and Research, Immigration and Citizenship and the Australian Customs and Border Protection Service;
 - development of legislation by Treasury and administrative arrangements by the ATO to reflect the new taxation regime – tax legislation to operate from 1 July 2012 but there is scope to finalise the tax administration arrangements during the 2012-13 financial year ;
 - amendments to the *Shipping Registration Act 1981* to establish the AISR in consultation with the Attorney General's Department and DEEWR on the appropriate mechanisms to exclude the AISR vessels from the requirements of the *Fair Work Act 2009* and *Seafarers*

Rehabilitation and Compensation Act 1992 while ensuring Australia continues to comply with *Maritime Labour Convention* requirements; and

- transitional arrangements for the reformed coastal shipping regulatory system including consequential amendments to relevant Commonwealth laws.
246. It is proposed to undertake a review of the reforms within five years of the new arrangements being implemented. This should be designed to allow time to assess whether the transitional arrangements set out in paragraph 62 are likely to be effective and whether the regulatory and tax measures are proving effective in concert with reforms developed under the Compact.