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**Committee Secretary**

Senate Standing Committee on Rural and Regional Affairs and Transport  
PO Box 6100  
Parliament House  
Canberra ACT 2600

Dear Sir or Madam,

**Increasing use of so-called Flag of Convenience shipping in Australia**

Thank you for the opportunity to make a submission to this inquiry. Please find this submission attached.

Yours faithfully,

**Warwick Norman**  
Chief Executive Officer



## Introduction

This submission is made on behalf of RightShip Pty Ltd.

Following the Australian House of Representatives Standing Committee on Transport, Communications and Infrastructure's report *Ships of Shame: Inquiry into Ship Safety*, global commodity companies BHP Billiton and Rio Tinto came together to form RightShip in 2001.

Drawing on the significant ship vetting expertise of major charters and shippers, BHP Billiton and Rio Tinto, RightShip was established to improve dry bulk safety and quality standards. In 2006 international food, agriculture and risk management company Cargill joined as an equal equity partner.

As major charterers and shippers, the founding businesses had developed vetting systems to manage their own marine risk. RightShip combined their expertise and resources to develop an online comprehensive risk management tool. Today, RightShip also provides vetting services and OCIMF SIRE inspections to the petroleum, chemical and gas sectors.

RightShip is focused on helping industry avoid preventable incidents, whilst reducing the carbon dioxide emissions emitted by the world's maritime fleet. This is done by condensing information, providing rapid and consistent analysis and advice, monitoring and complying with international standards, and bringing expert support and advice within the reach of even the smallest business.

RightShip provides risk and environmental assessment to clients through an on-line platform, which in 2015-16 has been upgraded to an augmented product (RightShip Qi) that incorporates big data and predictive analytics into real-time risk assessments. RightShip's online platform includes data on over 76,000 vessels, incorporating data feeds from ship owners and managers, Intercargo (The International Association of Dry Cargo Ship Owners), IHS Maritime, US Coast Guard, Green Award and a number of flag states including Liberia and the Marshall Islands. The risk assessment on each vessel is based on a number of factors, including but not limited to:

- Owner/operator history
- Flag history
- Class history
- Terminal feedback
- Environmental impact
- Incident history
- Port State Control inspection deficiencies & detentions
- Inspection history
- Environmental & emissions measures

RightShip's achievements in the prevention of maritime incidents has been recognised by numerous accolades and awards, including the Prime Minister's 2013 *Australian Exporter of the Year* as well as the Australian Trade Commission's 2013 *Business Services Award*.

RightShip would be happy to provide confidential analysis on specific risk interactions should this be of assistance.



## Summary

As experts in maritime risk management, and with fourteen years of experience and data to validate our claims, RightShip believe that to solely identify ‘Flag of Convenience’ (FOC) vessels as being the only leading indicator of vessels at higher risk of incident or malpractice is at best an over-simplification, and at worst incorrect and misinformed.

Established in 2001, RightShip’s data records date from 2004 until today; and this experience and evidence is reflected in the analysis presented herein.

In September 2015 RightShip’s records represent a total in-service fleet of 51,728 vessels around the world representing more than 500 DWT, and excluding yachts, naval craft and fishing vessels. Sixty-one percent or 31,536 of these are flagged with a FOC. Panama, Liberia, Malta and Bahamas make up 44.29% or 13,968 of these vessels. These registries are recognised as being on the ‘white list’ in the annual reports of the 2014 Paris MOU and 2014 Tokyo MOU.

As the table following indicates, there are numerous factors that contribute towards vessel risk. Flag is a leading indicator, however it is a complex and variable set of interactions that also incorporates (but is not limited to) age, flag changes, casualties, class, builder, DOC PSC performance, class changes, and vessel PSC performance.

The maritime environment is complex, and RightShip have adopted a CHAID algorithm to model the interactions between the industry’s major actors and agents. This algorithm is currently being reviewed by the University of Arizona. Relationships are shown in the table below.

Age Band	Primary Interaction	Secondary interaction
0 – 4 years	Flag	Flag Changes Casualties Class
5 – 8 years	Flag	Flag Changes Class
9 – 13 years	Flag	Builder Casualties DOC PSC Performance Class Changes
14- 22 years	Flag	DOC PSC Performance Vessel PSC Performance Casualties Class
22- 29 years	Casualties	Flag
29+ years	Casualties	Vessel PSC Performance Flag



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Simply attributing risk to flag, without consideration of these other interactions, is to take an overly simplistic perspective rather than a true reflection of the modern shipping industry.

RightShip's risk rating, developed and refined over 14 years, represents a comprehensive and sophisticated risk analysis.



## **The increasing use of so-called Flag of Convenience shipping in Australia, with particular reference to the effect on Australia's national security, fuel security, minimum employment law standards and our marine environment**

As an island nation Australia has long been reliant on shipping trade, which transports 95% of the world's freight. As part of a global community, we seek and support a unilateral approach to all matters of concern regarding shipping.

### **National Security**

The international convention for maritime security is the International Ship and Port Facility Security Code, or ISPS. All vessels trading on the Australian coast, regardless of where they are registered, are subject to ISPS.

ISPS compliance of all foreign-flagged vessels (FOC or otherwise) is monitored by the Australian Maritime Safety Authority (AMSA) as one element of Port State Control (PSC).

Since January 2004, none of the vessels detained by AMSA have been detained due to a violation of the ISPS code.

Regardless, vessels trading on the Australian coast that bear a FOC could be manned by Australian seafarers, or seafarers of any other nationality.

### **Fuel Security**

RightShip has no specific input to provide on the matter of fuel *security*, however if required could provide some insight into the relationship between fuel efficiency and safety.



### **Minimum Employment Law Standards**

The minimum standards for conditions of employment are dependent upon the Flag of registry of the vessel, the contract between a seafarer and their employer, the requirements of the Fair Work Act (where required) and are additionally subject to the requirements of the Maritime Labour Convention (MLC).

RightShip customer advice on vessel selection includes International Transport Workers' Federation (ITF) approved contracts for seafarers, and refusing to recommend a vessel whose Flag hasn't ratified the MLC 2006 or secured a voluntary DMLC. Major Flags of Convenience - Panama, Liberia and the Marshall Islands – have adopted the MLC.



## Our Marine Environment

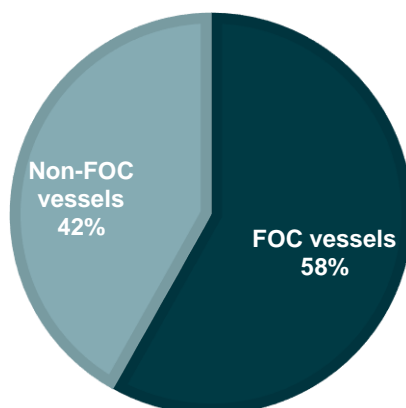
The standards governing environmental compliance are matters of international law, and are not dependent on which flag a vessel sails under. The primary regulatory instrument for the environmental performance of ships is the International Convention for the Prevention of Pollution from Ships, or MARPOL.

MARPOL's requirements apply regardless of which flag a vessel is registered under, and are enforced in Australia as part of AMSA's PSC regime.

As you can see from Figure 1, the number of vessels detained by AMSA for MARPOL deficiencies from January 2014 - August 2015 is weighted towards FOC vessels (n=125) vs non-FOC vessels (n=90).

**Figure 1: AMSA MARPOL PSC deficiencies by flag of convenience vessels vs other flags  
January 2014 – August 2015**

### AMSA MARPOL DEFICIENCIES JAN '14 - AUG '15



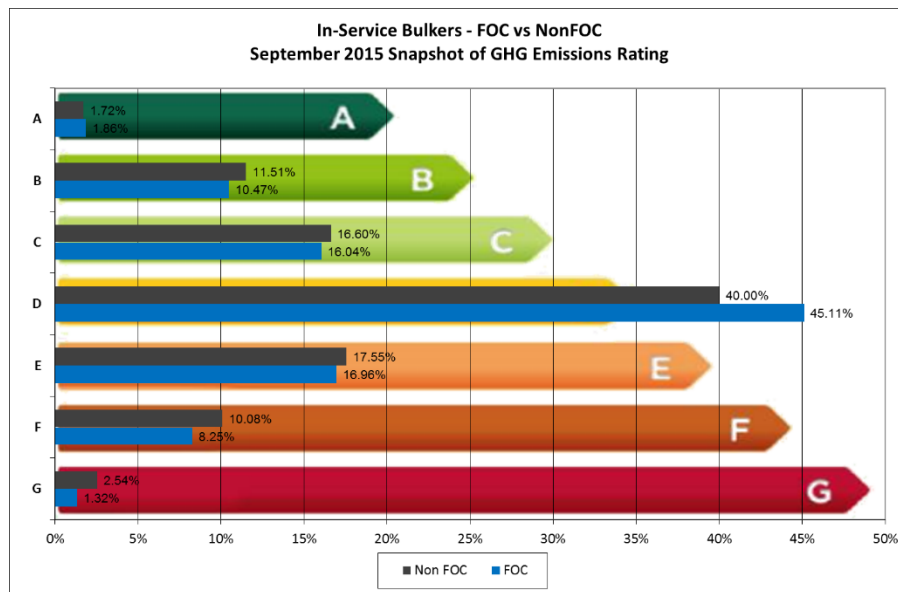


In an effort to identify and therefore mitigate international shipping’s contribution to global warming - which is currently estimated at over one billion tonnes of carbon dioxide per year - RightShip developed the Greenhouse Gas (GHG) Emissions

RightShip’s GHG Rating measures the theoretical carbon dioxide output of all vessels. This rating assigns each ship with an A – G nomination across a peer group of vessels of a similar size and type, where A represents the most efficient vessels. Charterers collectively representing 26% of global bulk cargo or 1.95 billion tonnes annually, use the GHG Rating to select the more energy-efficient vessels.

Figure 2 below is a snapshot of all in-service bulkers, and shows the distribution of FOC and non-FOC vessels. Both groups have a similar bell-curve distribution of vessels across the A to G scale, indicating that in terms of carbon emissions, FOC vessels do not perform significantly differently to non-FOC vessels.

**Figure 2: GHG Rating of in-service Bulkers, September 2015**



Further analysis of the GHG Rating on specific variables (ship type etc.) can be provided should this be of assistance.





## The increasing use of so-called Flag of Convenience shipping in Australia, with particular reference to the general standard of Flag of Convenience vessels trading to, from and around Australian ports, and the methods of inspection of these vessels to ensure that they are seaworthy and meet required standards;

All vessels trading or operating on the Australian coast are subject to inspection. Those registered in Australia will be subject to a Flag State inspection, whereas those flagged elsewhere are subject to a PSC inspection.

AMSA carry out both types of inspections, ensuring the vessel complies with international conventions for safety, environmental performance, crew training and qualifications, vessel conditions, and on-board living and working standards.

With a number of powers to ensure compliance, AMSA generally seeks to act in a way to improve performance rather than simply force non-compliant vessels elsewhere. Many deficiencies identified during an inspection will be remedied immediately; others may be severe enough to warrant the detention of a vessel until the deficiency can be rectified.

Virtually all flag states have ratified the same international conventions, and in their “no more favourable treatment” obligations, AMSA subjects all vessels to the same requirements - regardless of whether their flag has or has not ratified these conventions. AMSA has identified a PSC targeting matrix which identifies vessels that are considered to be higher risk, or would benefit from PSC inspection. Cooperative arrangements to share information on vessel performance exist between AMSA and their equivalent organisations worldwide: in Australia’s region this is served by the Toyko MOU and the Indian Ocean MOU.

Figure 3 below shows the breakdown of AMSA deficiencies by FOC vessels (n=13,270) versus vessels from other registries (n=9,685). This indicates that although deficiencies are weighted towards FOC vessels, there is not a great difference between the two groups.

**Figure 3: AMSA PSC detentions January 2004 – August 2015 by FOC and non-FOC vessels**

### AMSA PSC DETENTIONS JAN '04-AUG '15

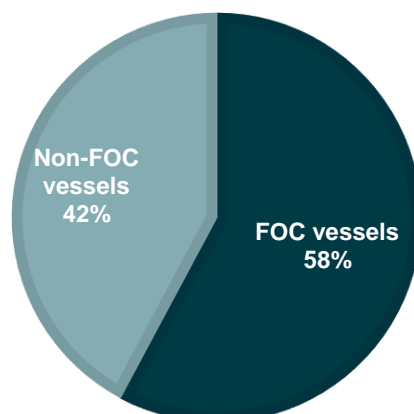
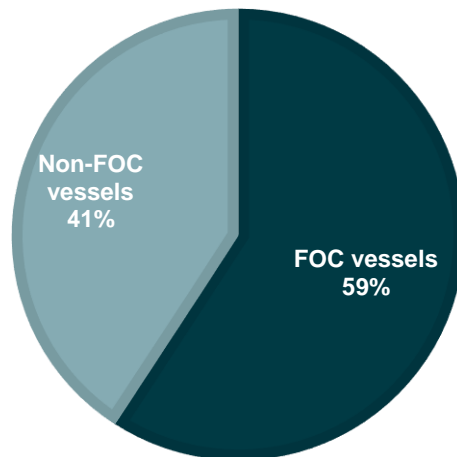




Figure 4 represents a more recent time frame, January 2014 to August 2015, and shows that the ratio of FOC vessels (n=1,428) vs non-FOC (n=985) detained by AMSA is consistent with the larger time frame.

**Figure 4: AMSA PSC detentions January 2014 – August 2015 by FOC and non-FOC vessels**

### AMSA PSC DETENTIONS JAN '14 - AUG '15





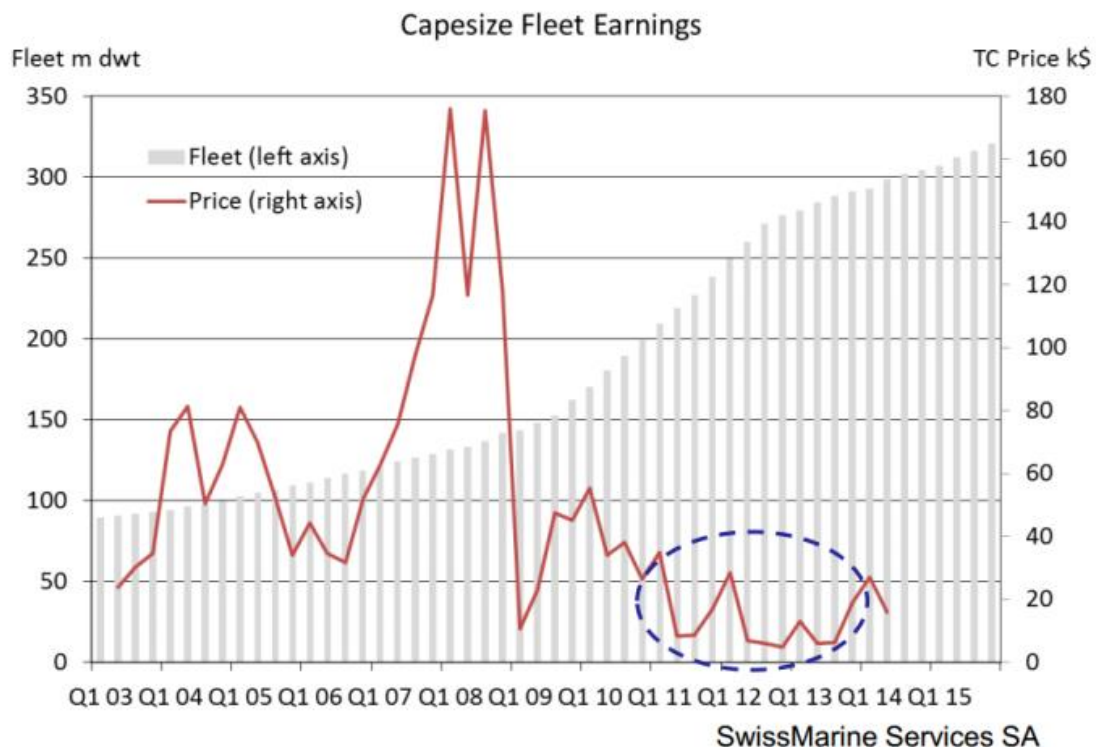
## The increasing use of so-called Flag of Convenience shipping in Australia, with particular reference to the employment and possible exposure to exploitation and corruption of international seafarers on Flag of Convenience ships;

The link between a vessel's Flag and the country-of-origin of their crew is tenuous at best.

The standards and conditions of employment are dependent upon the contract between a seafarer and their employer, and potentially an ITF agreement. Conditions are now subject to the requirements of the MLC 2006, which took effect in Australia in 2012.

Research published in 2010 ([www.thehumanelement.org.uk](http://www.thehumanelement.org.uk)) demonstrates that more than 80% of accidents at sea are attributed to the 'human element'. Average crew sizes are diminishing, resulting in fewer people doing more work. This is a symptom of the sustained depression of the industry, and the need for owners and managers to cut costs (see Figure 5), rather than attributable the vessel's Flag.

**Figure 5: Bulk carrier cape fleet vs earnings**





**The increasing use of so-called Flag of Convenience shipping in Australia, with particular reference to discrepancies between legal remedies available to international seafarers in quality of shore-based welfare for seafarers working in Australian waters;**

RightShip has no specific input to provide on the matter of discrepancies between legal remedies available to international seafarers in quality of shore-based welfare for seafarers working in Australian waters.



**The increasing use of so-called Flag of Convenience shipping in Australia, with particular reference to progress made in this area since the 1992 House of Representatives Standing Committee on Transport, Communications and Infrastructure report Ships of shame: inquiry into ship safety;**

There has been significant progress since the Ships of Shame inquiry.

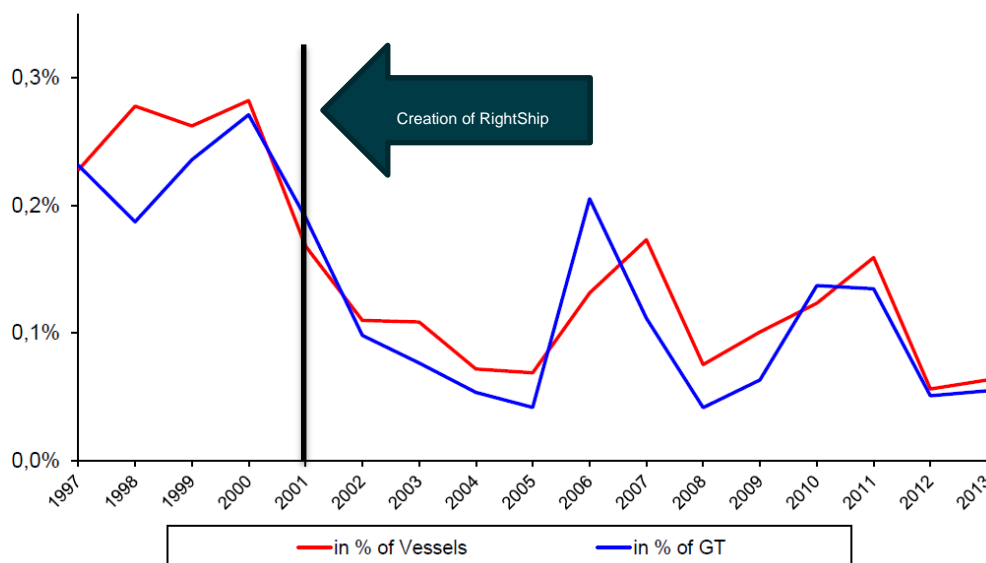
**The RightShip Effect**

RightShip was established in 2001 as a direct response to the Ships of Shame inquiry.

By applying best-practise safety standards across all vessel categories, it is widely accepted that since inception RightShip has helped the shipping industry significantly improve global maritime safety standards. In 2014 the maritime industry recorded 75 total losses, its lowest number in ten years.

**Figure 6: Bulk carrier fleet according to IUMI**

**Bulker Total Losses 1997 – 2013**  
As Percentage of World Bulker Fleet  
Bulkers > 10,000 DWT





RightShip's customer advice on vessel selection includes ITF-approved contracts for seafarers, and refusing to recommend a vessel whose Flag hasn't ratified the ILO's MLC 2006 or secured a voluntary DMLC.

Since 2001, RightShip has

- conducted 300,000 vets on 25,000 unique vessels
- denied 10,500 vessel voyages, eliminating 5,500 unsafe vessels from customers' supply chains

In 2014 alone, as the world's largest supplier of third party vetting services, RightShip provided ship vetting and risk management services to more than 240 customers globally. RightShip conducted almost 36,000 online vets on ships carrying 3.16 billion deadweight tonne, and undertook over 3,000 physical vessel inspections.

Removing over 900 unsafe ships from customer supply chains in 2014, RightShip's global focus ensures unsafe vessels are removed from supply chains, not relocated.

RightShip has provided a platform for shippers and commodity exporters to minimise risk above compliance levels and without great expense. Our clients extend across the maritime supply chain to anyone with an interest in proactively managing risk.

Some additional points:

1. Vetting in the dry bulk industry has become common practise and has been adopted by the majority of Australian-based bulk mineral shippers
2. Greater understanding of the fragility of large bulk carriers by all parties has led to class having increased focus on the integrity of the vessel hull
3. Rapid expansion of the dry bulk fleet, in particular cape sized vessel, has brought rapid expansion of modern tonnage into the sector
4. The internet has provided greater transparency to the maritime industry, and organisational data exchanges have by utilised by organisations such as RightShip to enable focus on sub-standard shipping
5. The selection of Flag by vessel owners is largely a commercial decision, with very few vessels refused membership

## **Conclusion**

To equate Flag of Convenience vessels with risk is an over-simplistic equation, and understates the progress that has been made in reducing maritime risk since the Ships of Shame inquiry.

The risk rating that RightShip has developed over the last fourteen years represents a more holistic means of measuring risk, and looks well beyond the unilateral flag assessment.