MARITIME INDUSTRY AUSTRALIA LIMITED

Answers to supplementary questions received in writing from Senate Standing Committee on Rural & Regional Affairs & Transport - Inquiry into the policy, regulatory, taxation, administrative and funding priorities for Australian Shipping

Commercial shipping – bunker fuel, fuel tax credits and duty

Qns from the committee:

1. You referred to a cost differential between Australian and domestic ships.
   MIAL assumes this is meant to read Australian and Foreign ships. We have stated that the differential is generally between A$5 – 7 Million per annum.

2. What portion of that cost differential is fuel?
   The figures we have provided on the differential in costs between Australian and Foreign ships in the past do not include any fuel component.

   The differential in fuel cost between bunkering in Australia vs Singapore per day equates to between 7% - 19% (depending on crewing and vessel type) of daily operating costs (based on the examples provided herein).

3. Would a vessel operating internationally be able to avoid that cost by bunkering internationally?

Yes.

Operators that necessarily need to bunker in Australia experience the following:

1) Pay around 30% more for fuel than vessels that can bunker in Singapore; and
2) Lose the opportunity cost of their money while excise and GST on the fuel is held by the Government; and
3) Incur the administrative burden of the excise/fuel tax credit system.

Details provided below.

Fuel Prices

The cost differential of bunkers purchased in Singapore vs Australia is between USD $120 - $180 per metric tonne (MT) extra in Australia. Singapore is a reasonable example of worldwide bunkers - see Appendix 1. The reasons for the cost differential are described in detail in Appendix 2.

This differential remains largely the same while the international oil price changes so the % that this equates to differs over time. Based on the price on 8/10/2020, this is a 27% increase in fuel cost for operators who must bunker in Australia.

Fuel as a % of operating costs

Fuel accounts for 30 – 50% of vessel costs for a Panamax bulk carrier.

For a 1700TEU container vessel (capable of much faster speeds and therefore higher fuel consumption) this is much higher more like 55 – 75%.

The differential in fuel cost between bunkering in Australia vs Singapore per day equates to between 7% - 19% (depending on crewing and vessel type) of daily operating costs.

See detailed working on pricing at Appendix 3.

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Operators able to bunker overseas are at a significant advantage – being able to pay nearly 30% less for one of the largest, if not the largest, operating expenses for the operation of a vessel.

Clearly this results in an unlevel playing field for vessels operating around Australia. This is a significant differential for any new coastal operator to incur if they are to compete with a vessel operating internationally.

There is a further issue to consider in the context of fuel costs in Australia – the impost of excise or customs duty and the application of fuel tax credits.

Vessel operators must pay duty on fuel they use around Australia (and GST on that total cost) and then claim a rebate, known as Fuel Tax Credit; along with the GST when they submit their BAS. Treasury ends up with $0 and operators (and the ATO) are faced with a significant administrative burden. In addition, operators wear the cost of having money held by the government until it is refunded (resulting in an opportunity cost to the operator). For many operators, this also involves paying their agent a fee to complete and submit paperwork and receive the refund.

To complicate this further, not all vessels operating around the coast carrying coastal cargo must pay customs duty. If the carriage of domestic cargo is not the sole purpose of the voyage then no duty is payable on the fuel used to carry it from A to B.

A detailed explanation of the application of the taxes and rebates is provided at Appendix 4.

Many voyages carrying domestic cargo around Australia do so while still carrying international cargo. All the large container vessels trading around mainland Australia operate on this basis.

Under these circumstances, vessels that must bunker in Australia are attempting to compete with vessels that can bunker overseas and are not subject to the payment and crediting back of customs duty and GST, which amounts to an even greater disadvantage.

At best, the regime of duties payable and rebates available creates a costly administrative burden; at worst it creates an unlevel playing field between operators, imposes taxes on taxes (GST on the duty), middlemen fees and the opportunity cost of money held by Government.

MIAL supports the exclusion of maritime fuel from the excise and customs duty system (and therefore the Fuel Tax Credit regime) on the basis that it imposes additional costs on operators in the Australian maritime industry, provides no value to the Australian treasury, and further exacerbates the cost differential between vessels operating internationally and those dedicated to coastal trades.

MIAL would welcome the opportunity to explore the exclusion of maritime fuels with the relevant Government agencies with the view to eliminating this cost and administrative burden from industry.

Appendix 1 – Snapshot of global bunker prices

https://shipandbunker.com/prices

VLSFO (Very Low Sulphur Fuel Oil), 8/10/2020

	Price $/mt
Global 20 Ports Average	**339.50**
Global 4 Ports Average	**327.00**
Global Average Bunker Price	**356.50**
Americas Average	**367.00**
APAC Average	**370.00**
EMEA Average	**339.00**
Singapore	**342.50**
Rotterdam	**311.00**
Houston	**311.50**
Fujairah	**343.00**
LA / Long Beach	**358.00**
Hong Kong	**318.00**
New York	**333.50**

Appendix 2 – Factors affecting cost of bunker fuel in Australia

Overall, there is no doubt that bunker fuel costs in Australia are significantly higher than in Singapore, for the following reasons:

Import Parity pricing. All Australian fuel pricing is based on import parity against Singapore Platts[1] baseline pricing. This includes all ground, aviation and marine fuels. The cost build up is based on the cost to import fuel from Singapore into the Australian delivery location, and includes the following key elements:

- Product cost basis Singapore FOB (free on board) price as calculated daily by the Platts agency
- Import tanker freight from Singapore to the discharge port in Australia, based on normal trading routes, and using standard tanker industry indices- i.e. World Scale and Platts daily tanker trade data.
- Both the FOB product cost and tanker freight are in the public domain
- Insurance and loss costs, which is typically a fixed % of the landed cost of the fuel
- Non freight Import costs, including e.g. port charges and wharfage etc
- Local storage and handling costs – i.e. the cost to run and maintain fuel import terminals
- Secondary distribution costs – for bunkers, this is typically the cost of delivery by bunker barge
- Marketing costs and other overheads including margin

Other than the base FOB product cost, all of the other costs differ from location to location. But some general rules of thumb:

- Tanker freights are driven by distance to discharge port and tanker size. Ports further from Singapore will have higher freights than closer ports, all other things being equal.
- Large volume ports with large import capacity (e.g. Sydney) have lower costs than smaller volume ports, as a result of import freight and storage scale economies.
- Marine fuels delivered by barge will typically be more expensive than the same fuel delivered by truck to a non-marine application- because barges are so expensive to operate in Australia.

Economies of scale. Singapore annual bunker volume –and this is effectively for a single supply location is around 50 Million tonnes. Australia total annual demand across ALL ports is around 2 million tonnes. The major bunker ports in Australia are Fremantle, Melbourne, Sydney, Brisbane and Gladstone, and these represent around 55% of total bunker deliveries. At an average of around 200,000 MT per port that's 0.4% of Singapore volume.

Delivered Price. The bunker prices typically reported in the major reporting agencies, i.e. Platts, is for sales of bunker fuel in cargo size parcels. This is for a cargo size parcel of say 50,000MT, not for a delivered bunker. Delivered bunker prices in Singapore are typically at a premium of USD20-70/MT above the Platts cargo markers, to cover the downstream costs of barge provision, other overheads etc. The premium for Australian bunker prices is USD120/MT – USD180/MT above the Platts price.

Competition. Because there are nil scale economies in Australia, and supply of fuel oil is reasonably capital intensive – e.g. heated storage, barges etc – the small scale of Australian bunker ports tends to create localised natural monopolies. Each of the main bunker ports in Australia currently supports a single major supplier. The last 10 years each of these ports has gone from multiple supplier to single supplier, simply because there is insufficient volume to support anything other than a single supplier – hence Mobil exit from Melbourne, Caltex and Glencore exit from Sydney and Brisbane etc. It's a situation common with other capital intensive port services such as e.g. towage.

[1] S&P Global Platts is a provider of energy and commodities information and a source of benchmark price assessments in the physical commodity markets.

Costs. One of the major costs associated with bunkering is the provision of bunker barges. Bunker barges in Australia are typically much more expensive than in Singapore because of the cost of seafarers. The cost of a barge in Australia is probably more than double (or even triple) the cost of same size barge in Singapore, and probably has a third of the overall throughput. Unit barge costs per MT are therefore substantially higher and represent a major part of the cost differential.

Appendix 3 – Fuel costs as proportion of operating costs

There are many variables to be considered - it depends on the length of the voyage, the cost of the fuel (base price), exchange rate, the cost of other inputs (i.e. crew costs, which are higher for an Australian crew than foreign crew, so the overall ratio changes). Two scenarios are provided below for indicative purposes.

Fuel price used:

Singapore Price USD342 Exchange Rate 1.4	Delivered Price[2] Singapore + USD45 = US$387; A$542 Australian + USD150 = US$492; A$689

Scenario 1 – Panamax Bulk Carrier

- Fuel Consumption: 23 tonne/day at sea; 1 tonne/day in port
- 10 day voyage – 6 at sea; 4 in port.

Bunker in Australia - AUD		
Crew	Foreign	Aust
Cost per day AUD		
Crew, repairs and maintenance	10,000	22,000
Fuel (AUD689)	9,781	9,781
% Daily Costs that are Fuel	49%	31%

Bunker in Singapore - AUD		
Crew	Foreign	Aust
Cost per day AUD		
Crew, repairs and maintenance	10,000	22,000
Fuel (AUD542)	7,694	7,694
% Daily Costs that are Fuel	43%	26%

Differential in fuel cost between bunkering in Australia vs Singapore = AUD2,087 per day; which is a 12% increase in daily costs for a ship with a foreign crew and 7% for Australian crew.

Scenario 2 – 1700TEU Containership, 20Kn max speed

- Fuel Consumption: 70tonne/day at sea; 5 tonne/day in port (extra to run generators for refrigerated containers)
- 10 day voyage – 6 at sea; 4 in port.

Costs per day for vessel operation (AUD)

Bunker in Australia - AUD		
Crew	Foreign	Aust
Crew, repairs and maintenance	10,000	22,000
Fuel (AUD689)	30,307	30,307
% Daily Costs that are Fuel	75%	58%

Bunker in Singapore - AUD		
Crew	Foreign	Aust
Crew, repairs and maintenance	10,000	22,000
Fuel (AUD542)	23,839	23,839
% Daily Costs that are Fuel	70%	52%

Differential in fuel cost between bunkering in Australia vs Singapore = AUD6,468 per day; which is a 19% increase in daily costs for a ship with a foreign crew and 14% for Australian crew.

[2] Delivered bunker prices in Singapore are typically at a premium of USD20-70/MT above the Platts cargo markers, to cover the downstream costs of barge provision, other overheads etc. The premium for Australian bunker prices is USD120/MT – USD180/MT above the Platts price.

Appendix 4 – Taxes and Refunds appliable to fuel

Excise Duty – paid on fuel obtained in Australia. It is calculated on volume at a rate determine by the ATO (currently 42.3 cents/litre)

Customs Duty – paid on fuel obtained overseas and used domestically (for interrupted voyages or imported vessels). It is calculated on volume at a rate determine by the ABF (currently 42.3 cents/litre). (https://www.abf.gov.au/importing-exporting-and-manufacturing/tariff-classification/current-tariff/schedule-3/section-v/chapter-27)

GST – payable on the cost of the fuel and the duty paid (therefore becomes partially a tax on tax)

Fuel Tax Credits - is a refund of the excise or customs duty paid (for fuel used off-road). It is calculated on volume at a rate determine by the ATO (currently 42.3 cents/litre)

FTC & GST – are claimed back on BAS.

Application of these taxes and refunds

Based on information available on the ATO website:

Factors affecting payment of duty and taxes on bunker fuel or the ability to claim credit entitlements depends on:

- the type of voyages undertaken in Australian waters
- the residency (for tax purposes) of the shipping operator
- agency arrangements on behalf of non-resident shipping operators.

1. Type of voyage

The type of voyage of an overseas ship is determined by the primary purpose of the trip within Australian waters. Types of voyages are:

- international voyages
- domestic voyages, including
  - short-term disconnections
  - long-term disconnections
- fully imported ships.

The type of voyage determines if bunkers will be subject to customs or excise duty or GST. See image attached for diagrammatic representation.

1.1 Duty payable on bunkers during international voyages

Bunkers on an overseas ship engaged in an uninterrupted international voyage are not subject to customs duty or GST on fuel consumed during the voyage. Local bunkers may be acquired without payment of excise duty or GST.

Example

Xiang Shipping Lines operates a foreign-owned ship. After arriving in Brisbane from Singapore, it discharges some international cargo and loads domestic cargo for Melbourne. In Melbourne it *discharges that domestic and some international cargo, acquires local bunkers and departs for Auckland where it discharges the balance of the international cargo.*

Although domestic cargo was carried between Brisbane and Melbourne, the international voyage was not interrupted as transportation of that domestic cargo was not the sole purpose of the Brisbane-Melbourne leg. Xiang Shipping Lines do not have to pay customs duty and GST on fuel consumed during domestic travel. The bunkers acquired in Melbourne are free of excise duty.

1.2 Domestic legs of international voyages

An overseas ship is on a domestic voyage when the sole purpose of a leg is to either:

- load or unload domestic cargo
- re-position the ship to load or unload domestic cargo for transport to an Australian port.

A continuing international voyage is temporarily interrupted by short or long-term disconnections and permanently ceased if a ship is fully imported.

Example - Short-term disconnection

Nolan Shipping operates a foreign owned ship. After arriving in Brisbane from Hong Kong, it discharges some international cargo and accepts a spot charter to transport domestic cargo from Brisbane to Sydney and Melbourne. After unloading that cargo in Melbourne it departs for Auckland where it discharges the balance of the international cargo.

Although it has international cargo on board none of it was unloaded in Sydney or Melbourne and no international cargo was loaded at either port. As a result the two legs conducted between Brisbane and Sydney and Sydney and Melbourne have interrupted the international voyage and are a short-term disconnection to that voyage. The sole purpose of those legs was to transport domestic cargo. Nolan Shipping must pay customs duty and GST on fuel consumed during that domestic travel. A fuel tax credit may be claimed on customs duty paid.

Example: Long-term disconnection

Gvoski Shipping Lines, a non-resident shipping operator owns and operates the MV Belinz. After discharging its international cargo in Brisbane, it loads domestic cargo for Sydney, Melbourne, Whyalla and Fremantle. In Fremantle it discharges the remaining domestic cargo, uploads bunker fuel and other cargo before proceeding to Cape Town. There is no international cargo loaded or unloaded during the Brisbane to Fremantle leg of the voyage.

The legs between Brisbane and Fremantle are a long-term disconnection of its international voyage. Gvoski Shipping Lines must pay customs duty and GST on bunker fuel consumed during that domestic transport because the sole purpose of the voyages was to transport domestic cargo. Bunker fuel may be acquired free of excise duty in Fremantle as the ship is resuming its international voyage. A fuel tax credit may be claimed on customs duty paid. If there is no entitlement to a fuel tax credit a refund of duty may be claimed.

When an overseas ship resumes an interrupted international voyage, a refund of duty paid cannot be claimed on the remaining bunker fuel if there is an entitlement to claim fuel tax credits. Refunds of duty are generally only payable to non-resident shipping operators that are not registered or required to be registered for GST.

1.3 Fully imported ship

A non-resident ship is fully imported when it terminates or indefinitely suspends an international voyage with the intention of remaining and working within Australian waters.

Bunkers remaining on a fully imported ship that has completed its international voyage are subject to the following GST, customs and excise duty implications:

- bunker fuel on board on importation of the ship is liable for customs duty and GST
- bunkers subsequently acquired for domestic use are subject to excise duty and GST
- fuel tax credits and input tax credits may be claimed on duty-paid bunkers in accordance with rules on agency and other eligibility requirements.

2. Residency (for tax purposes) of the shipping operator

A business must be registered for GST before it can register for fuel tax credits, including:

- A resident agent acting on behalf of a non-resident shipping operator, even if the non-resident shipping operator is already registered or must be registered for GST.
- A non-resident shipping operator
    - if the revenue from business transactions in Australia (one-off or cumulative) exceeds the relevant GST turnover threshold
    - needing to claim fuel tax credits on bunkers not acquired through a resident agent.
- A resident shipping operator where the business turnover is in excess of the GST turnover threshold. All GST transactions and fuel tax credit claims are included on the operator's own BAS even if the transactions were arranged through a resident agent.

3. Agency rules for non-resident shipping operators

Specific GST rules apply to non-resident shipping operator transactions made through a resident agent. Where a resident agent makes an acquisition or importation of bunker fuel on behalf of a non-resident shipping operator:

- only the resident agent is entitled to the input tax credit or fuel tax credits on the fuel
- the non-resident shipping operator is not entitled to any input tax credit or fuel tax credits on the fuel.

3.1 Resident shipping agent

A resident agent must include on their BAS all GST supplies they make on behalf of non-resident shipping operators, even where the operator is registered or must be registered for GST.

The resident agent is:

- liable for GST arising from all transactions
- entitled to any fuel tax credits and input tax credits for bunker fuel acquisitions made by them on behalf of the non-resident shipping operator.

Example

Australian Shipping Agency arranges for the acquisition of duty-paid bunker fuel for APL Hong Kong, a foreign ship owned by Yang Shipping Lines. Yang Shipping Lines is invoiced directly by the fuel supplier for the fuel acquired.

Under the GST non-resident agency rules, Australian Shipping Agency is exclusively entitled to claim the fuel tax credits on the fuel that Yang Shipping Lines acquired through them. The payment for the fuel is incidental to the acquisition of the fuel if Australian Shipping Agency can demonstrate the acquisition was arranged through them.

3.2 Non-resident shipping operator

Example
JZ Shipping is a non-resident shipping operator. They arrange the supply and payment of duty-paid bunker fuel to be used by their ship, APL Hong Sang, during the domestic legs of its voyage. Australasian Shipping Services, a local shipping agent makes arrangements on their behalf for the supply of other ship's stores (eg alcohol and cigarettes).

Australasian Shipping Services cannot claim fuel tax credits as the bunker fuel acquisition was not made through them. JZ Shipping must be registered for GST and fuel tax credits to be entitled to claim any associated credit on their BAS.

4. Resident shipping operators

Example
Holiday Shipping Services is the resident shipping agent for Bass Shipping Lines, an Australian shipping operator. They provide a range of shipping services, including arranging the supply of duty-paid bunker fuel for consumption in Bass ships.

The GST agency rules do not apply to transactions conducted by Holiday Shipping Services on behalf of Bass Shipping Lines. Bass Shipping Lines is solely responsible for all GST and fuel tax credits regardless of Holiday Shipping Services involvement in those transactions.

5. Fuel supplier

A fuel supplier:

- cannot claim fuel tax credits for duty-paid bunker fuel on-sold free of duty – the on-selling of fuel to another entity is not fuel used in an enterprise for fuel tax credit purposes
- can claim an excise refund for duty-paid bunker fuel that is on-sold free of duty only if no other entity is entitled to claim the fuel tax credits

Example
Australora Oil sources duty paid fuel from a major fuel manufacturer and supplies it as bunker fuel directly to Argut Shipping Services, a non-resident shipping operator, for use in its cargo ship the MV Augusta. The fuel is supplied at a duty-free price.

Australora Oil cannot claim fuel tax credits for the fuel on-sold as the transaction is not an eligible use of the fuel and they are not engaged as a resident agent for Argut Shipping Services. Australora Oil can only claim a refund of duty paid if Argut Shipping Services have no entitlement to fuel tax credits.

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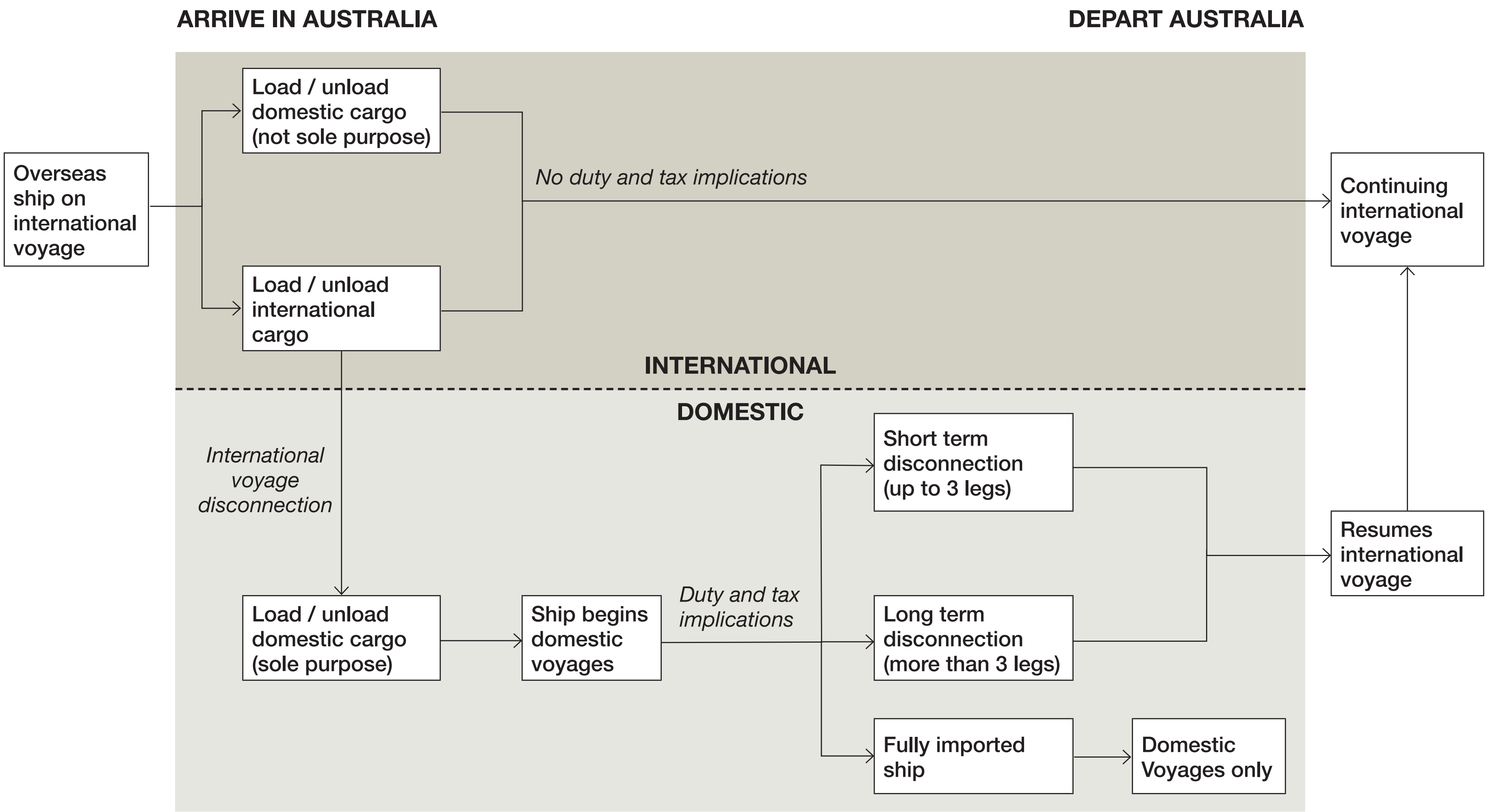
Australian Government
Australian Taxation Office

TYPE OF VOYAGE BEING UNDERTAKEN



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