

U N C L A S S I F I E D



Australian Government

Department of Infrastructure and Regional Development

File Reference:

Ms Trish Carling
Senior Research Officer
Senate Rural and Regional Affairs and Transport Committee
Parliament House
CANBERRA ACT 2600

Dear Ms Carling

Subject: Questions Taken on Notice

I refer to your email dated 18 September 2015 seeking responses to the questions taken on notice at the Senate Rural and Regional Affairs Legislative Committee hearing on the *Shipping Legislation Amendment Bill 2015* on 7 September 2015.

Please find attached responses to each question.

Yours sincerely

Judith Zielke
Executive Director
Surface Transport Policy

11/10/15

U N C L A S S I F I E D

UNCLASSIFIED

Senators RICE/STERLE: Who was invited to the roundtable in February 2015. Were unions invited to the roundtable and, if not, why not?

Response:

Invitees to the Industry Roundtable 2 February 2015

Organisation	Invitees
Alcoa of Australia	Tim McAuliffe
Australian Aluminium Council	Miles Prosser
Australian Chamber of Commerce and Industry	Kate Carnell John Osborn
Australian Industry Group	Stephen Smith
Australian Institute of Petroleum Ltd	Paul Barrett John Tilley
Australian Mines & Metals Association	Lisa Matthews
Australian Peak Shippers Association	Robert Coode
Australian Shipowners Association	Teresa Lloyd Noel Hart
Australian Sugar Milling Council	Dominic Nolan
BP Australia	Charles Perrottet Richard Wise
Business Council of Australia	Simon Pryor
Carnival Cruises	Peter Taylor
Cement Industry Federation	Margie Thomson
Cristal Mining	John Halden
CSL Australia	Chris Sorenson
Gypsum Resources Australia	Alistair Kelsh
Hartmann Project Lines	John Bell
Incitec Pivot	Matt Trotman Don Briggs
Inco Ships	Andrew Dally
Jebsens	Grant Williams
Minerals Council of Australia	Matthew Steen
National Farmers Federation	Sarah McKinnon
Pacific Aluminium	Margi Johnson Peter Garland
Ports Australia	David Anderson
Rio Tinto Marine	Peter Mannion

UNCLASSIFIED

UNCLASSIFIED

SeaRoad	Michael Easy
SeaSwift	Lino Bruno
Shell Australia	Nilofar Morgan
Shipping Australia Limited	Rod Nairn Ken Fitzpatrick
Swire	Denis Speyer
Teekay	David Parmeter
Tidewater Marine	Colin Muir
Toll	Andrew Ethell Royce Christie
Viva Energy	Edwina Pribyl Matt Hodgkinson
Wilmar Sugar	Martin Jones

The Roundtable was focused on seeking views from businesses and industry associations affected by the existing regulatory framework.

UNCLASSIFIED

Senators STERLE/ LAMBIE: In relation to the industry survey undertaken as part of the RIS process, who was surveyed, what information was sought and what were the survey results.

Response:

List of Invitees for Survey by Organisation

Alcoa of Australia Limited	CSL Australia Pty Ltd	Orica Australia Pty Ltd
APL Co Pte Ltd	Egon Oldendorff VmbH	Origin Energy Contracting Limited
Asiaworld Shipping Service Pty Ltd	FBA Freight Brokers Australia Pty Ltd	Orion Expedition Cruises
ASP Ship Management	Fenwick Shipping Services (Australia) Pty Ltd	Ozzielines Pty Ltd
Austral Asia Line	Furneaux Freight Pty Ltd	P&O Maritime Services Pty Ltd
Australia Pacific Touring	Gearbulk Australasia Pty Ltd	Pacific Aluminium Services Pty Ltd
Australian Institute of Marine and Power Engineers	Glencore Singapore Pte Ltd	Pacific Asia Express
Australian Maritime Officers Union	Gulf Agency Company (Australia) Pty Ltd	Perkins Shipping Pty Ltd
Australian Maritime Officers Union- WA	Gypsum Resources Australia Pty Ltd	Q Coast Shipping Pty Ltd
Australian Mines and Metals Association	Hartmann Project Lines	Raffles Technical Service Pte Ltd
Australian Peak Shippers Association Inc.	Harvey Bay Pty Ltd	Rathbone Pty Ltd
Australian Shipowners Association (now Maritime Industry Australia Limited	Inchcape Shipping Services	Rio Tinto Marine
BBC Chartering Australia Pty Ltd	Incitec Pivot Limited	Royal Caribbean International Sea Swift (NT) Pty Ltd
BCR Australia Pty Ltd	Inco Ships Pty Ltd	Sea Swift Pty Ltd
Bemax	Institute of Public Affairs Australia	SeaRoad Shipping Pty Ltd
BHPB Freight Pty Ltd	Interacid Australia Pty Ltd	Seaway Agencies
Bluescope Steel (AIS) Pty Ltd	Jebsens Coastal Shipping Pty Ltd	Shoalhaven Starches Pty Ltd
BP Australia Pty Ltd	K Line Australia Pty Ltd	Sugar Australia Pty Ltd
Braemar ACM Shipbroking Pty Ltd	Kestrel Maritime Pty Ltd	Tasmania Mines Ltd
Bundaberg Molasses	KnowMinister.com Pty Ltd	Teekay Shipping (Australia) Pty Ltd
Business Council of Australia	Kreab Gavin Anderson	The China Navigation Company Pte Ltd
Caltex Australia Petroleum Pty Ltd	L.D. Shipping Pty Ltd	The Shell Company of Australia Limited
Carnival Australia	Lindblad Expeditions Pty Ltd	Toll Transport Pty Ltd
Cement Industry Federation	Maersk Line A/S	Tourism and Transport Forum
Chevron Australia	Manufacturing Australia	Tourism NT
CMA CGM & ANL Australia Agencies	Maritime Union of Australia	Tourism Tasmania
Conion Murphy Pty Ltd	Mediterranean Shipping Company (AUST) Pty Limited	Trans Global Projects Pty Ltd
Coogee Energy Pty Ltd	Mitsui OSK Lines Australia Pty Ltd	Transport & Logistics Industry Skills Council
Coral Princess Cruises (NQ) Pty Ltd	MM Line Pte Ltd	TT Line Company Pty Ltd
Cristal Mining Australia Ltd	Mobil Oil Australia Pty Ltd	Wallenius Wilhelmsen Logistics
Cruise Down Under	Monson Agencies Australia Pty Ltd	Wilhelmsen Ships Service Pty Ltd
	North Star Cruises	Wilmar BioEthanol Pty Ltd
	NT Shipping Agencies Pty Ltd	Wilmar Sugar Pty Ltd
	NYK Line Australia	
	OOCL Australia Pty Ltd	

37 of the organisations opened the link to the survey. Of those 37, 19 responded to the survey.

UNCLASSIFIED

U N C L A S S I F I E D

Shipping Industry Survey Questions

1. Please list each vessel owned/operated and record:
 - a. whether it is listed on the Australian General Register or on a Foreign Register;
 - b. the vessel's size in terms of deadweight tonnage (dwt); and
 - c. the annual Australian coastal freight volume (in tonnes) carried by each vessel for each cargo type.
2. What is the typical crew size, and what are the gross annual crew costs, inclusive of on-costs (superannuation, leave and payroll tax), of each vessel?
3. What are the total, other operating expenses of each vessel? Other operating expenses include: victualling, administration, insurance, repairs and maintenance, dry docking, lubes and riding gang expenses.
4. What are your average annual costs associated with regulatory/legal compliance and reporting obligations, such as under the Coastal Trading Act? Estimate the costs based on staff required to manage compliance obligations.
5. What is the additional crew cost associated with paying crew at least Seagoing Industry Award Part B wage rates (inclusive of on-costs and leave entitlements) relative to the cost that may have been incurred if crew could be paid less than Part B wage rates?

Results/analysis

The results of the survey were included as Appendix B of the 'Cost Benefit Analysis of Regulatory Coastal Shipping Options' attached to the Regulation Impact Statement for the Bill. This Appendix is reproduced below:

Purpose of Survey

A shipping industry survey was developed in May 2014 "to assist government in further developing its understanding of the Australian coastal shipping market by obtaining accurate information about current pricing regimes."¹ It is intended to enhance understanding of industry cost structures.

The survey comprised five questions intended to capture information on cargo volumes delivered, crew size, crew cost, other ship operating expenses and compliance costs. PAG developed a web-based tool on behalf of the Department to distribute the survey. Each question is discussed in turn below.²

Analysis of Question 1

Question 1 was intended to obtain general information about the ships operating in the industry partly for the purposes of relating such information to subsequent questions. It was structured as follows:

"Please list each vessel owned/operated and record:

1. whether it is listed on the Australian General Register or on a Foreign Register;
2. the vessel's size in terms of deadweight tonnage (dwt);
3. the number of coastal voyages; and
4. the annual Australian coastal freight volume (in tonnes) carried by each vessel for each cargo type."

The sample size for Question 1 was 47, i.e. there were 47 vessels for which details were recorded. Respondents predominantly listed vessels as registered in a foreign register (37) as opposed to the Australian General Register (10).

¹ Department of Infrastructure and Regional Development front matter to online survey.

² Note: all figures reported are in Australian dollars unless otherwise stated.

UNCLASSIFIED

The freight task for respondents' vessels for financial year 2012-13 is shown in Figure A1 below. Iron Ore and 'Other Dry Bulk' categories attracted a higher fraction of total freight. Note that the freight volumes recorded do not capture industry total volumes as not all ship operators/owners participated in the survey.³

Vessel cargo carrying capacity measured in terms of deadweight tonnage was, on average, greater for foreign registered vessels than Australian vessels, approx. 68,000 and 58,000 respectively, for this small sample of respondents (Table A1).⁴ The average deadweight tonnage across sectors are outlined in the below table:

Figure A1: Freight volume by sector (metric tonnes), 2012-13

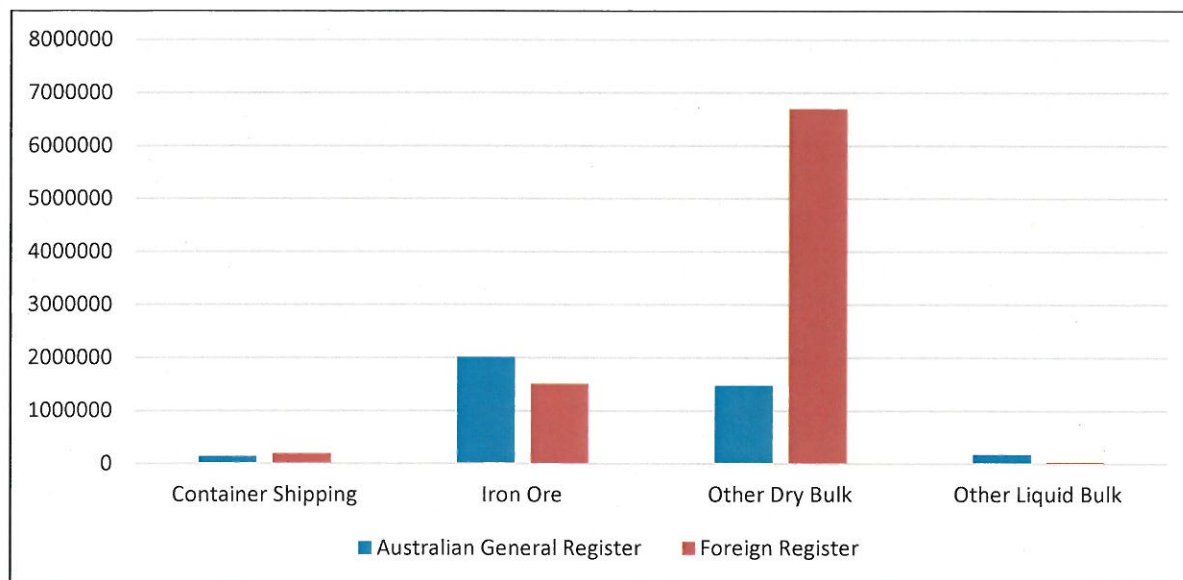


Table A1: Average deadweight tonnage by sector

Sector	Average deadweight tonnage
Container Shipping	42,755
Iron Ore	161,538
Other Dry Bulk	14,982
Other Liquid Bulk	4,396

The large deadweight tonnage of ships (in this sample) carrying Iron Ore is consistent with Capesize bulk carriers while 'Other Dry Bulk' may be carried by smaller Handy Size bulk carriers.

Analysis of Question 2

Question 2 was targeted at obtaining information on crew numbers and costs. It was structured as follows:

"What is the typical crew size, and what are the gross annual crew costs, inclusive of on-costs (superannuation, leave and payroll tax), of each vessel?"

³ The figures should not be used consequently to draw inferences about relative freight volumes delivered by Australian and foreign vessels across sectors.

⁴ Deadweight tonnage is measured in tonnes and is specifically the "difference between the vessel's lightship (unloaded) and its loaded displacement"; hence, it represents the weight of cargo, crew, passengers, fuel, ballast water and ship stores, among other things that the ship can carry (source: https://www.bitre.gov.au/publications/2013/files/asf_2011_12.pdf, p. 69).

UNCLASSIFIED

Average crew size for the small sample of Australian General Register respondents was 17. This was for ships engaging in Dry Bulk trade.⁵ Average annual crew cost across the six Australian vessels was approx. \$5.8 m (which is in fact close to the BITRE ship crew cost estimate for Dry Bulk carriers). Average crew size in the sample of foreign registered vessels was 18 across Container ships, Liquid Bulk and Dry Bulk categories. For Dry Bulk, this was approx. 17 on average; for Container ships, 19; and for Liquid Bulk, 15 on average. However, it is noted that the sample size was small in all instances. For foreign Dry Bulk carriers, the annual average crew cost was slightly less than \$1.3 m. No figures are available for Liquid Bulk. Some respondents noted the incremental cost of operating on the Australian coast associated with complying with the Seagoing Industry Award. Estimates of the incremental annual cost are approx. \$0.2 m (assuming an exchange rate of 1AUD:1USD for 2012-13) for Container ships.

Analysis of Question 3

Question 3 was aimed at obtaining information on other ship operating costs besides crew costs and was structured as below:

“What are the total, other operating expenses of each vessel? Other operating expenses include: victualling, administration, insurance, repairs and maintenance, dry docking, lubes and riding gang expenses.”

Australian General Register vessels for which other operating costs were reported tended to incur, on average, annual operating costs for 2012-13 of approx. \$2.6 m to \$2.7 m for Dry Bulk carriers, and ranged from approx. \$1.1 m to \$3.0 m. This calculation is only over 4 to 5 bulk carrier vessels. Amongst foreign flagged Dry Bulk carriers, the average operating cost was lower at approx. \$2.4 m for 2012-13, and ranged from approx. \$1.7 m to \$3.0 m.

Analysis of Question 4

Question 4 was intended to gauge the approximate range of compliance costs faced by vessel owners/operators under the Coastal Trading Act and was structured as below:

“What are your average annual costs associated with regulatory/legal compliance and reporting obligations under the Coastal Trading Act and associated shipping regulations? Estimate the costs based on staff required to manage compliance obligations.”

There were only 6 responses to this question. As some ship companies operate both Australian and foreign-registered vessels, an aggregate compliance cost is measured, rather than a compliance cost specific to General Licence and Temporary Licence operators. Annual costs were on average \$60,000 for 2012-13 but ranged from \$600 to \$225,000. It is possible that some respondents entered in a 1 to represent 100 per cent instead of entering 100 as the measure of the percentage of year a regulatory compliance staff member may spend on compliance matters pertaining to the Coastal Trading Act. Excluding the highest and lowest annual compliance cost figures reported gives an average of approximately \$32,700.

Analysis of Question 5

Question 5 of the survey aims to examine the costs associated with complying with wage rates and conditions of Part B of the SIA. Specifically, the question is structured as below:

“What is the additional crew cost associated with paying crew at least Seagoing Industry Award Part B wage rates (inclusive of on-costs and leave entitlements) relative to the cost that may have been incurred if crew could be paid less than Part B wage rates?”

Table A2: Additional crew cost incurred to comply with SIA Part B

⁵ However, note that there were only seven responses for this.

UNCLASSIFIED

Additional crew cost	
Summary measure	AUD (\$)
Average (mean)	\$ 525,350.25
Standard deviation	\$ 153,222.30
Median	\$ 500,000.00
Mode	\$ 500,000.00
Range (max. - min.)	\$ 662,857.00
Minimum	\$ 320,673.00
Maximum	\$ 983,530.00
BITRE ship cost model*	\$ 1,370,000.00

Note: Excludes figures where the cost was listed as zero.

* BITRE ship cost model estimate is an estimate of the difference between Award B crew costs and ITF TCC Agreement crew costs.

Table A3: Additional crew cost incurred to comply with SIA Part B (zeros included)

Additional crew cost	
Summary measure	AUD (\$)
Average (mean)	\$ 370,835.47
Standard deviation	\$ 277,527.06
Median	\$ 500,000.00
Mode	\$ 500,000.00
Range (max. - min.)	\$ 983,530.00
Minimum	\$ -
Maximum	\$ 983,530.00
BITRE ship cost model*	\$ 1,370,000.00

Note: Includes figures where the cost was listed as zero.

* BITRE ship cost model estimate is an estimate of the difference between Award B crew costs and ITF TCC Agreement crew costs.

Table A2 displays summary measures where zero figures are excluded, i.e. some respondents have as their response a value of zero (which is in place by default). In cases where this occurred, the currency recorded was “AED” (default currency in list) rather than “AUD”. It appears that respondents may have intended to leave the response blank and hence, inclusion of these figures may distort the result.

Costs are, on average, just slightly over \$0.5 m with a median of \$0.5 m. A maximum additional cost was recorded of slightly below \$1 m. The BITRE ship cost model indicate that costs of complying with SIA Part B wages are, on average, \$1.37 m with the cost varying somewhat with ship type (e.g. Handysize bulk carriers vs. product tankers). The BITRE ship cost estimate compares the difference between a ship paying SIA B wage rates and a ship paying ITF Total Crew Cost Agreement rates. The estimates from the current version of the BITRE ship cost model may be higher due to the fact that leave factors and salary on-costs are considered and these may have been excluded in the cost estimates of survey respondents. With ITF market rates⁶, the incremental cost narrows to approx. \$1.1 m. According to an ASA submission to PC in relation to Tasmanian shipping, the cost of compliance is approx. \$0.73 m.⁷ Given that the cost estimates in the survey may be inflated, we may expect the compliance costs to be less than \$0.5 m for some fraction of ships in the industry, but not for the entire industry – the sample size is too small for an industry-wide conclusion.

In Table A3, zero figures are included in the calculation of the compliance costs. This should be treated with caution as it appears the zero figures may not be accurate reflections of the intended response of survey participants. The average crew cost is slightly lower than when zero figures are included at approx. \$0.371 m.

⁶ According to a Deloitte Access Economics report into shipping, ITF market rates may be “26 per cent greater than basic ITF rates”, <http://www.cement.org.au/Portals/0/Documents/CIF%20Publications/DAE%20Shipping%20Reform%20Analysis.pdf>, p. 7

⁷ http://www.pc.gov.au/data/assets/pdf_file/0015/131244/sub029-tasmanian-shipping.pdf, p. 11

UNCLASSIFIED

As there are several limitations associated with the survey, the survey findings should be treated with caution. In developing the survey, there was a trade-off between reducing the likelihood of non-response by potential survey participants and obtaining detailed information on industry costs. As a lengthy survey may have deterred responses, a short survey was developed. However, this limited the quality and depth of information that could be obtained. It is recognized that the questions were of a general nature and did not address specific details that may distinguish between ship companies and ship types operated.

The figures reported in the survey are useful only as an indication of the potential range of ship costs in the industry that pertain to some but not necessarily all ships. A summary of the limitations of the survey include:

- ☐ a small sample size
 - minimal responses to the survey do not enable industry-wide conclusions to be drawn
- ☐ some respondents may have interpreted questions differently or misinterpreted questions
 - this will create variability in responses even if, for instance, vessel costs overall may be the same across certain types of vessels
 - for Question 2, some elements of crew costs such as on-costs may have been included by some respondents but excluded by others
 - for Question 3, some elements of other operating costs such as fuel, port and management fees may have been included in the figure reported by some respondents but excluded by others
 - for Question 4, it is possible that some respondents entered in a 1 to represent 100% instead of 100% as the measure of the fraction of year a regulatory compliance staff member may spend on compliance matters pertaining to the Coastal Trading Act.
 - for Question 5, leave factors and on-costs may have been included in estimates of cost by some respondents but excluded by others; moreover, costs will vary across ship types
- ☐ figures reported can only be approximate as the questions do not allow for a detailed breakdown of costs by e.g. crew position, ship type and crew size
- ☐ response bias may be present in some figures with costs inflated, for example, the cost of compliance with the Coastal Trading Act
- ☐ measurement error in responses are possible given that respondents may not have information on costs readily available and may have responded with a general estimate of the cost without obtaining more detailed, accurate information
- ☐ sample response bias is possible given that some shipping industry participants chose not to respond which can lead to a biased sample, i.e. skewed representation of the industry given the types of respondents and non-respondents

In light of the inherent limitations of the survey questions and responses, the summary figures reported in this section should not be relied upon in ship cost modelling and any other such analysis where more accurate estimates should be obtained. However, they may be useful for informing a general understanding of the possible range of ship costs that may be expected for some ships operating in the industry, but not necessarily for all ships.

To obtain detailed, on-going information on the shipping industry, it may be necessary to develop a more comprehensive survey series not necessarily for the sole purposes of informing a Regulation Impact Statement, and that also minimize non-response.

U N C L A S S I F I E D

Senator URQUHART: How many seafarers currently work on the 6 ships that service Bass Strait.

Response:

The Department contacted the three companies that provide regular non-bulk shipping services across Bass Strait and have been advised the following levels of current seafarer employment:

- Toll: 126;
- SeaRoad: 66; and
- TT-Line: 120 (including 60 officers provided by their labour supplier).

Senator URQUHART: The cost-benefit analysis assumes that 4 Bass Strait ships will become foreign-flagged if the Bill passes: how many Australian workers currently crew these 4 ships and what is the minimum number of Australian jobs that will need to be maintained on these 4 ships.

Response:

The response to the previous question identifies current seafarer employment on the Toll and SeaRoad vessels referred to in this question. If the operators of these vessels took a commercial decision to re-flag them and they were subsequently engaged in coastal shipping for more than 183 days in a permit year, these vessels would be subject to the minimum crew requirements that either the master or the chief mate and either the chief engineer or the first engineer must be Australian citizens, Australian residents or a person who holds an appropriate Australian visa.

U N C L A S S I F I E D