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STRONGER SHIPPING FOR A STRONGER AUSTRALIA

The Gillard Government believes there are sound economic, environmental and security reasons to revitalise the Australian shipping industry.

Everyone in Australia knows that we are currently experiencing a once in a generation resources boom.

They understand that the Nation's prosperity is linked to the world needing and wanting our resources.

What many people do not know is that 99 per cent of Australia's international trade is carried by ships, yet only one half of one per cent of that trade is carried by Australian flagged vessels.

Our ports manage ten per cent of the world's entire sea trade.

\$200 billion worth of cargo is moved annually.

Your industry employs more than 14,000 people either at sea or onshore.

We are the biggest single island nation and the fourth largest shipping task in the world.

Yet there are only 22 Australian registered major trading ships plying our waters today – down from 55 ships in 1995.

Of the remaining ships, only four — all gas tankers — are dedicated solely to international trade.

On top of this, a lack of investment means that our ships are getting older.

The average age of the Australian fleet now sits at almost 20 years which is around eight years older than those in the world fleet.

Ironically, this imbalance exists despite Australia being a country that prides ourselves on the safety and environmental outcomes of shipping.

We all know that the newer vessels are safer, more energy efficient and better meet the needs of modern shipping.

But it is not just the age of the fleet that is holding us back.

Like many industries, the maritime sector is also feeling the pressures of an ageing workforce with employers reporting that 49 per cent of their seafarer workforce is aged 45 years or older.

To compound the problem, attracting new recruits and building a strong and sustainable skills base has been hampered by the high cost and complexities of existing training structures.

At the same time, participation in the domestic freight task is also at an all time low.

All this adds up to lost economic opportunities and environmental and security risks to the Nation.

The industry is at the tipping point.

If we do not act now the Australian shipping industry will be lost forever.

This must change.

This Government will deliver that change.

We are determined to remove the disincentives that have made it uneconomic to operate Australian ships in a global environment.

We are determined to create an environment that will encourage and sustain growth and productivity in our shipping industry.

So today, I am announcing the most far reaching overhaul of our shipping industry ever undertaken.

THE ROAD TO SHIPPING REFORM

It is worth recapping how we got here.

Revitalising the shipping industry is a priority for the Gillard Government as national shipping creates jobs, is vital for our environment and essential to our security.

One of my first actions as a Minister was to commission a parliamentary inquiry into the coastal shipping sector and advise on ways of making it more competitive and sustainable.

The committee issued a unanimous report in October 2008, *Rebuilding Australia's Coastal Shipping Industry*.

In February 2009, I formed an advisory group of industry leaders to help us work out how to implement that report.

I followed this up during the 2010 election campaign with our shipping policy commitments.

On 1 December 2010, I released a Discussion Paper that proposed important reforms and invited submissions to be provided by the end of January 2011.

As you are all aware, in January this year I established three industry reference groups to consult and provide advice to the Government on the taxation, regulatory and workforce elements of the reforms.

Members of those groups represent the breadth of the maritime industry: ports, the bluewater and offshore sectors, regulators, unions and training providers.

We engaged across the Government, including Treasury and Finance officials.

The groups met numerous times, separately and together, and the discussions were conducted in a positive and constructive manner.

All that hard work and consultation has gone into producing the reform package, adopted by the Cabinet, which I am announcing today.

THE PACKAGE

A strong and competitive shipping industry is absolutely in our national interest.

In the interest of our economy.

In the interest of our environment.

In the interest of our security.

It is not easy.

It is right.

It is bold and decisive.

There are four elements to the reform package:

- Tax reform
- An Australian international shipping register
- A new licensing regime, and
- Workforce skills development.

TAXATION REFORM

The first element of our plan is tax reform.

We recognise that Australian shipping operators are competing against foreign operators that enjoy very competitive taxation, regulatory and employment arrangements.

Today, we are doing more than just catching up.

We will now be leading them.

The fiscal incentives developed with the Treasurer include:

- a zero tax rate;
- accelerated depreciation arrangements;
- roll-over relief for selected capital assets;
- tax exemptions for seafarers working overseas on qualifying vessels; and
- a Royalty Withholding Tax exemption where vessels are leased by an Australian company from foreign owners under a demise or bareboat charter.

A Zero Tax Rate

International experience in Europe, Asia and South America shows that the introduction of financial support — usually in the form of a tonnage tax and personal tax breaks for seafarers working in the international trade — has had substantial and very positive effects.

We have gone a step further – we are not introducing a new tax in the form of a tonnage tax and then setting a discounted rate.

We will **exempt** qualifying income from shipping from taxation.

We have done this to keep it simple.

Australian resident companies with vessels registered in Australia, including those on the International Register, **will not** pay company tax.

The definition of qualifying income will be liberal.

But, of course, it must be income from seagoing commercial trading activities that carry cargo or passengers.

Accelerated Depreciation

I mentioned before Australia has an old fleet compared to international standards.

This is in part due to our depreciation rate for vessels being set at 20 years.

We are cutting this in half.

We are reducing this now to 10 years.

This reform has multiple effects.

An economic benefit - the cost of operating a 20 year old large bulk carrier is at least 40 percent more than for a five year old ship.

A safety and environmental benefit - newer vessels incorporate new technology making them safer and more environmentally friendly.

An employment benefit as ship building is encouraged.

Roll Over Relief

There will also be a roll over relief scheme so that shipowners can defer their tax liability arising from gain or profit on the sale of old vessels, when replacing them with new vessels.

Together with the accelerated depreciation provisions, this will encourage Australian shipowners to modernise their fleet.

Tax Exemption for Seafarers

It makes no sense that an Australian seafarer sitting on a ship in the Port of London should pay Australian income tax while an Australian working as a bartender in a pub in London does not.

Consequently, a refundable tax offset will be available to Australian employers of Australian resident seafarers engaged in international trades.

The offset will be equivalent to the amount of income tax withheld from pay and allowances of Australian resident seafarers who spend more than 90 days on international voyages on qualifying vessels in an income year.

Royalty Withholding Tax Exemption

The current arrangements work **against** the employment of Australian crew on vessels chartered by Australian companies.

As you are aware, payments for a bareboat charter are subject to a royalty withholding tax but time charter payments are not.

By exempting the royalty withholding tax, we are removing the disincentive for the use of bareboat charters and promoting the use of Australian crew.

This will help make Australian-operated vessels cost competitive.

Conditions on Tax Benefits

We have placed a couple of conditions on receiving these tax benefits:

- Vessels entering the regime **must be** Australian flagged
- There will be a minimum training obligation, the details of which we will finalise with industry in the coming months
- Once a ship elects **into the exemption** they must remain in the regime for a minimum of 10 years.
- There will also be a lock out period of 10 years to reduce tax avoidance opportunities.

AUSTRALIAN INTERNATIONAL SHIPPING REGISTER

We recognise that international shipping is competitive and our tax package is designed not to just stopping the decline in Australian shipping – it is designed to take advantage of the opportunities for Australia to be a major force in global shipping.

We need to grow our international fleet.

This will be encouraged through the creation of an Australian International Shipping Register.

This will help Australians to participate in international trade and address the cost disadvantages experienced by our registered vessels when competing internationally.

Vessels on the International Register will be Australian flagged.

When they undertake an overseas voyage they must provide the crew with terms and conditions in line with the Maritime Labour Convention.

This is consistent with the practice of other major traditional maritime nations that offer international registers.

When Australian International Shipping Register vessels work domestic coastal routes, **all crew**, irrespective of nationality will be covered by the Fair Work Act.

The same environmental, safety and OH&S standards will apply to **these** vessels as apply to first register vessels.

To further support the industry, International Register vessels must employ a minimum of two Australian crew, preferably the Master and the Chief Engineer.

In my view, these arrangements strike a good balance between competing on a level playing field internationally, while ensuring Australia's domestic maritime cluster can grow.

ACCESS TO THE COAST

Throughout this reform process there have at times been claims that the Government is planning to close the coast to foreign shipping.

This is not the case.

These reforms are not about protectionism.

These reforms are about moving forward, not backwards.

It is important that Australian coastal shipping is competitive and that shippers can make use of foreign-registered vessels when Australian ships are not available.

But the current permit system is broken.

It creates uncertainty and serves as a disincentive to capital investment.

Permits are too easy to obtain.

The alleged policy objectives are observed in the breach.

It is not clear what permits are being issued and for what trade.

The rules aren't clear and are not set out in legislation.

There are no incentives to encourage a long-term commitment to working the Australian coast.

Reforms I am announcing today provide clarity and transparency to shippers and operators and enable them to plan long-term.

The new licensing regime will support Australian shipping and set clear boundaries around the necessary role of foreign vessels in our coastal trade.

Licensing requirements and conditions will be set clearly in legislation, giving certainty and clarity to all operators.

There will be a three tier licensing regime.

A **General Licence** will provide Australian flagged vessels with unrestricted access to the coastal trades for a period of up to five years at a time.

These vessels will also be eligible for the tax incentives.

A **Temporary Licence** will enable foreign-flagged vessels to operate the coastal trades, subject to time, trade and/or voyage conditions.

These licences will be available for a period of up to 12 months.

An **Emergency Licence** will be for cargo or passenger movements in emergency situations, such as natural disasters.

These will only be valid for a single voyage.

Supporting this regime will be new reporting and publishing arrangements.

And there will be a transitional period.

Foreign-flagged vessels that are currently licensed will have five years to transition to Australian-flagged.

MARITIME WORKFORCE DEVELOPMENT FORUM

The fourth leg of reform is workforce development.

A ship is only as good as its crew.

We must attract, train and retain a skilled seafaring workforce.

There will be no incentive to invest without the right people in the right jobs.

I touched earlier on the challenges of an ageing workforce, costly and complicated training systems and the consequent erosion of skills.

This was strongly identified during the Review of Coastal Shipping.

The Australian Government took heed and in July 2009 we provided the Australian Maritime College in Launceston with almost \$4 million in funding for a new state-of-the-art maritime simulator to help deliver training in coastal navigation.

This simulator is now something of an attraction and has already had visitors from Chinese, Japanese and American maritime educators.

In February last year we provided the College with more than \$2 million to deliver vocational education and training.

The Government has already been doing its bit in this area and I believe industry must also ramp up its efforts in resolving the skills lag.

To encourage this, I am setting up a Maritime Workforce Development Forum with experienced people from industry, unions and the training sector.

The Forum will address areas that are fundamental to building our skills base.

These will include a workforce plan for the medium term to address issues including the ageing workforce and the most immediate skills gaps.

I expect the Forum to work hand-in-hand with the proposed National Workforce and Productivity Agency, with AMSA and training providers.

I also want advice from the Forum about how we can better use existing Government skills initiatives and funding sources.

The Forum will be in place for no more than five years and I will review its effectiveness within two years.

LABOUR PRODUCTIVITY REFORM

The final element of the reform package is labour productivity.

We are committed to aligning Australian productivity practices with the best in the world.

To do this, we will need a compact between industry and unions.

I have previously said this compact must include changes to work practices, a review of safe manning levels and the use of riding gangs on coastal vessels.

This compact is essential to the reform agenda.

I am aware that negotiations between industry and the unions are progressing.

I offer these words of encouragement to the parties.

With this package the Government has done our bit; now you must do yours.

2012 START DATE

Earlier I said that any meaningful reform must be bold and decisive.

The package I just outlined is bold.

Now for the decisive.

When I announced the Government's election commitment to revitalise Australian shipping I said it would be in place by mid-2013.

However, in the time we have been working on this major reform package we have seen more vessels leave our shores.

The need to arrest this decline, combined with the hard work and focus given by all involved, has convinced the Government to bring forward this reform.

Today, I am announcing that the shipping reforms will commence on 1 July 2012.

THE BROADER SHIPPING INDUSTRY REFORM AGENDA

While we have been developing the coastal shipping reforms, we have not been idle in other maritime areas.

National Regulator

At last month's COAG meeting the Prime Minister got the States and Territories to agree to the establishment of a single national safety body — something that has not been achieved in the 110 years since Federation.

This will greatly decrease the burden of red tape, increase regulatory confidence, remove inconsistency in the law applying to Australian commercial vessels and streamline new maritime safety plans.

By 2013 Australia will have one maritime safety regulator the Australian Maritime Safety Authority - and one law - Commonwealth law - applying to all commercial vessels in Australian waters.

Navigation Act Rewrite

We are currently rewriting the *Navigation Act 1912* to provide contemporary and robust regulation for maritime safety.

The Act is outdated and requires modernisation to better reflect current regulatory policies.

It needs to be more flexible in responding to changes in national and international safety standards.

It will contain a new penalty and enforcement regime.

We aim to have the new legislation finalised by the middle of next year.

Maritime Labour Convention

The Gillard Government is committed to global solutions to global problems, whether it be climate change or a safe, clean and secure shipping industry.

As a Government we are strongly committed to fairness in the workplace.

That is why we will implement the Maritime Labour Convention and have legislation before the Parliament ratifying it.

IMO Participation

The International Maritime Organization is a critical forum for Australia, given our heavy reliance on the maritime domain.

Australia is a foundation member and we have served on the IMO Council for over forty years.

Our support for the adoption and implementation of IMO Conventions is almost unparalleled.

The IMO Council elections occur this November and we will seek re-election to the Council.

Protection of the Marine Environment

Australia imposes high safety standards on ships to protect our environment.

However, in recent times our precious reefs and coastlines have been put in jeopardy by two major incidents involving foreign flagged ships – the *Pacific Adventurer* oil spill and the *Shen Neng 1* grounding.

To increase protection for our precious marine waters, we have recently extended the ship tracking system (REEFVTS) to cover the entire Great Barrier Reef.

All large ships must regularly report their location and route and their progress will also be tracked by radio and satellite 24/7.

But our efforts to protect the Reef don't stop there.

I will soon be introducing into Parliament legislation toughening penalties for breaches of our maritime and environmental laws.

NEXT STEPS

The dialogue doesn't end here – I have made it clear to my Department that they must ensure the information flows both ways as we get the final legislation drafted.

As I have said previously, you will get the opportunity to see the draft legislation before it is finalised.

CONCLUSION

This is a huge reform agenda and clearly shows the Government's commitment to revitalising Australian shipping.

My thanks to all of you for your time, hard work and honest advice.

All of you have contributed to today's announcement.

Particular thanks to those who participated in the Reference Groups.

I know your involvement added pressure to your busy professional and personal lives.

In closing today I want to state the obvious — and that is that it makes no sense, no sense at all for Australian trading to take place almost entirely in the hulls of foreign ships.

We need to become participants, not just customers.

We need to upgrade the fleet.

We need to get the regulatory framework right.

We need a “best in class” tax system for shipping.

And we need a pool of skilled seafarers to operate the ships of the future.

These reforms will confirm Australia’s long term economic, environmental and security objectives.

These reforms are fully costed and have been offset according to our strict fiscal principles.

The Government has stepped up to the plate.

Now, we need to work together to ensure they succeed.