

DEL AGUILA Fiorella

From: Sutton Michael
Sent: Tuesday, 17 November 2015 10:59 AM
To: WHITROW David
Cc: ZIELKE Judith; HEFFERNAN Brett; FINLAY Jess; OPOKU Naa; PATHAK Chirag
Subject: points on alcoa ship [SEC=UNCLASSIFIED]
Attachments: 20151109_Briefing Note MV Portland.pdf; Document1.docx

Importance: High

David – as discussed; updated talking points plus the briefing note provided by alcoa (which they indicated “The Minister is free to use this information in public comments as Alcoa’s advice to him on the issue”).

michael

From: Sutton Michael
Sent: Thursday, 12 November 2015 5:48 PM
To: Heffernan Brett
Cc: Finlay Jess; Bryant Katherine; Zielke Judith; Opoku Naa (Naa.Opoku@infrastructure.gov.au); Media (Infrastructure)
Subject: brett - points re the alcoa ship, as requested. michael [SEC=UNCLASSIFIED]
Importance: High

Decommissioning of MV Portland, use of foreign flag vessel

Background

- The MV Portland is near the end of its operating life; it is 27 years old and is scheduled for a statutory dry-dock in mid-January 2017. The cost to keep it operational is expected to be in the \$millions.
- Rather than dry-dock, Alcoa has chosen to sell the vessel and replace it with a more cost efficient method of delivery of alumina from Western Australia to the Portland aluminium smelter.
- Reducing costs will help the Portland smelter remain competitive in a challenging international market, and help protect more than 2000 direct and indirect jobs, many in regional Victoria.
- Alcoa applied for and was granted (on 22 October) a Temporary Licence under the *Coastal Trading (Revitalising Australian Shipping) Act 2012 (Cth)* for 17 voyages using a foreign flag vessel to transport alumina between WA and Portland up to October 2016.
- The grant of a Temporary Licence is an open process and allows for objections to be lodged. There were no objections to the grant of the licence from any shipping company or the Maritime Union of Australia.
- The MV Portland is crewed by ASP. There are approximately 40 people in the total crew pool with 19 on the vessel at any one time.
- ASP has a number of different Enterprise Agreements with the officers, engineers and seagoing ratings in place.
- Alcoa has worked with ASP to help ensure that any affected crew receive appropriate entitlements and assistance.
- In chartering a foreign flag vessel, Alcoa will only contract with shipping owners who pay their crew at least the minimum mandated salary under the International Transport Federation award. These conditions are contained within our standard charter documents.

MUA Objection

- The MUA has sent a letter, dated 6 November, objecting to the issue of a Temporary Licence to Alcoa. This objection comes more than a month after the application for Temporary Licence was made and two weeks after the licence was granted.



- It is claimed in the letter that the Portland smelter is not under review. Alcoa Inc announced in March 2015 that it was reviewing 500,000 tonnes of smelting capacity – no particular sites were identified. This month the company announced it would idle three smelters in the U.S. and permanently close another because of prevailing market conditions.
- It is also claimed that Alcoa has government-subsidised power contracts in place until 2036. This is not correct: Alcoa's existing contract with the State Energy Commission of Victoria expires 31 October 2016. The smelter then moves to a new commercial contract with private power producer AGL.
- The letter also asks what measures the Minister's Department has taken to encourage Alcoa to explore its options within the Australian shipping industry for a replacement ship. On 2 June 2015 Alcoa issued a Request for Quotation (RFQ) for 12 months shipping services (foreign or Australian flag) to approximately 15 shipping companies, including CSL Shipping. CSL was considered the only company with Australian flag ships that had the capability to deliver the service. CSL did not respond to the RFQ.

Summary

- Alcoa's primary objective is to reduce the operating cost of the Portland smelter and help it remain internationally competitive in the face of very challenging market conditions. Actions to replace the MV Portland will deliver cost savings in excess of \$6M p.a. to the Portland smelter.
- Decommissioning the MV Portland is one of a number of cost saving measures being taken by Alcoa in an attempt to help protect more than 2000 direct and indirect jobs associated with the smelter.
- Currently it is cheaper for Alcoa to ship alumina from Western Australia to the Middle East or China than it is to ship it to Victoria.
- In applying for a Temporary Licence to ship alumina from Western Australia to Portland, Alcoa has followed the legislated process. No objections were received to Alcoa's application for a temporary licence to replace the MV Portland.

MV Portland: Replacement with a Foreign Vessel

- I understand that the MV Portland is near the end of its operating life. It is 27 years old and the costs of keeping it in service are becoming prohibitive.
- As a result Alcoa has chosen to sell the vessel and replace it with a more cost efficient method of delivery of alumina from Western Australia to the Portland aluminium smelter.
- Alcoa has advised the Government that decommissioning the ship is one of a number of cost saving measures being taken in an attempt to help protect more than 2000 direct and indirect jobs associated with the Portland aluminium smelter.
- Alcoa applied for and was granted (on 22 October) a Temporary Licence under the *Coastal Trading (Revitalising Australian Shipping) Act 2012* using a foreign flag vessel to transport alumina between WA and Portland up to October 2016.
- The application was processed by the Department in accordance with the standard processes under the coastal trading legislation, including consultation with Australian General Licence holders and other interested stakeholders including shipping associations and maritime unions
- No notices in response were received from any Australian general licence holders, meaning that no general licenced ships were seeking to carry the Alcoa cargo.
- There were also no substantive comments on the application received from any of the stakeholders, including the maritime unions
- The letter from the MUA complaining about the issue of the Temporary Licence was sent on 6 November, well after the consultation process on the licence application and the issue of the temporary licence.
- Alcoa's decision not to replace the MV Portland is a commercial decision by the company under the regulatory regime in place through the current *Coastal Trading (Revitalising Australian Shipping) Act 2012*.
 - It has not been caused by the Government's reforms contained in the *Shipping Legislation Amendment Bill 2015*
 - The decision by Alcoa is further confirmation of the need for reform to secure the future of shipping in Australia

Background

The new Temporary Licence covers 17 voyages until October 2016. The first voyage was scheduled for late October and was not performed.

Any foreign vessel used by Alcoa under a temporary licence for more than 2 voyages will be covered by the *Fair Work Act* and required to pay Part B wages. We are currently checking with Alcoa on its planned vessel arrangements.

The MV Portland is owned by Alcoa and crewed by ASP. There are approximately 40 people in the total crew pool with 19 on the vessel at any one time. ASP has a number of different Enterprise Agreements with the officers, engineers and seagoing ratings in place. Alcoa has worked with ASP to help ensure that any affected crew receive appropriate entitlements and assistance. In chartering a foreign flag vessel, Alcoa will only contract with shipping owners who pay their crew at least the minimum mandated salary under the International Transport Federation award.

ASP has initiated action in the Fair Work Commission for a s.418 order under the Fair Work Act that the crew of the MV Portland cease industrial action (a 'stop order'). The application is scheduled to be heard in the Commission on 17 November 2015.