

# STRATEGIC FLEET TASKFORCE



FINAL REPORT



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ISBN 978-1-922879-09-7

November 2023 / INFRASTRUCTURE 6080

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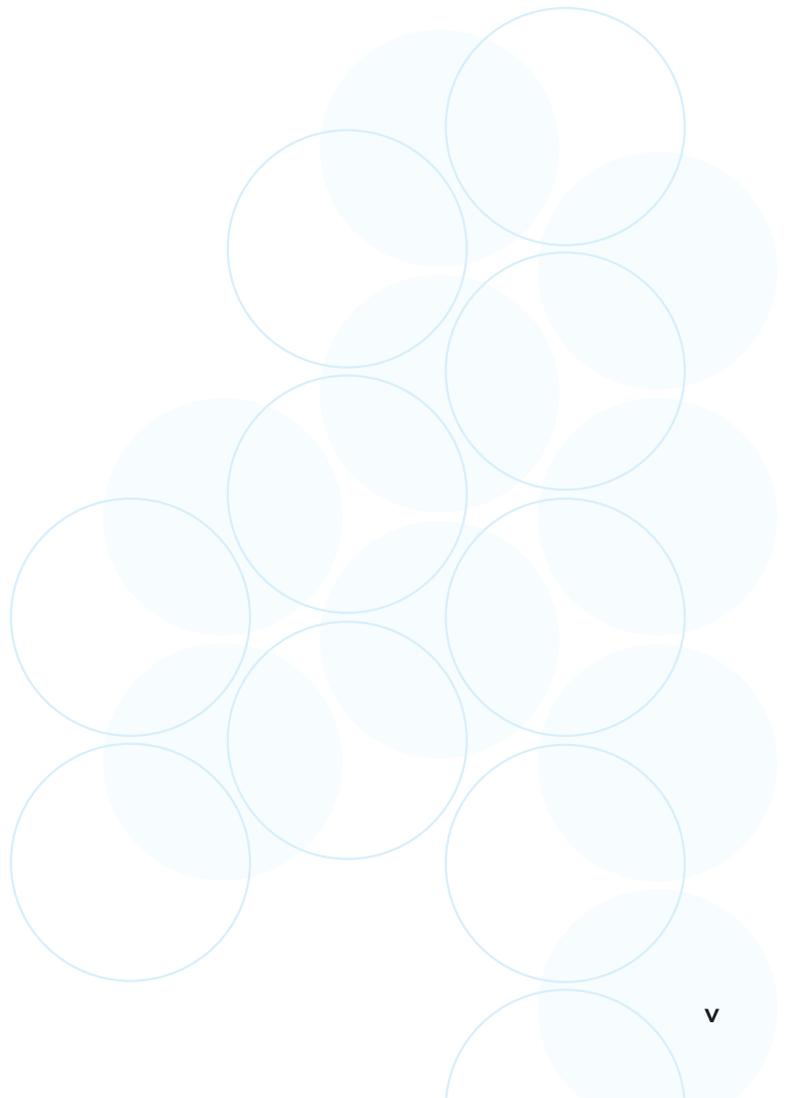
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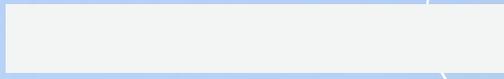
## Public version of the report

This is the public version of the Strategic Fleet Taskforce Report. It is necessarily different from the 30 June 2023 version of the Taskforce's Report provided to the Hon Catherine King, Minister for Infrastructure, Transport, Regional Development and Local Government. It is less detailed, as some of the judgements and advice in the Taskforce Report contain information that is sensitive. In particular, information that is commercial and/or critical to the design of future Government strategic fleet initiatives has not been included as its release may reduce the effectiveness and ability of the Government to achieve the best value for money from future investments.





# TASKFORCE NARRATIVE





# TASKFORCE NARRATIVE

## Government commitment

The Australian Government announced it will establish a strategic fleet of up to 12 Australian-flagged and crewed vessels. The Government appointed this Taskforce to guide it on the establishment of the fleet, noting it would be privately owned and operate on a commercial basis, but could be requisitioned by the Government in times of national crisis such as natural disaster or conflict.

A Terms of Reference was provided to the Taskforce to describe the Government's expectations and assist with the Taskforce's deliberations.

## Taskforce process

The Taskforce met 17 times to discuss the job the Government had asked it to do and deliberate on how to meet the Government's request for advice on establishing a strategic fleet. The Taskforce commissioned research to be undertaken to provide a strong evidentiary basis to its considerations and recommendations. A range of consultation was also conducted to attain ideas and to check the validity of the Taskforce's thinking and advice. This worked in concert with the development and testing of a number of options across the streams of work the Taskforce was asked to consider in the Terms of Reference.

## Context

The Taskforce is acutely aware of the importance of supporting and maintaining a viable shipping industry. As a nation we rely on shipping for our economic and social well-being. This was starkly illustrated during the COVID pandemic and was reinforced when the rail line to Western Australia was cut in 2022, where shipping was critical to keep vital goods moving west and east. The National Defence – Defence Strategic Review (Defence Strategic Review) released in 2023 has highlighted the growing geopolitical tensions in the region and that a whole-of-Government response will be required. The strategic fleet will be essential to this response.

All nations that have large fleets controlled under their flag/registration recognise the benefits associated with having a strong shipping industry, such as the creation of skills, revenue generation from the ensuing economic clusters that develop in support of large fleets, control of critical strategic assets, supply chain security and economic diversity. To secure such an industry these nations offer a wide range of incentives, direct subsidisation, or apply protectionist measures, or in some cases a combination of all three.

Australia has several measures in place to support Australian businesses in the same way as overseas shipping businesses are supported by their governments. In fact, Australia has all the necessary building blocks in place already. The issue is that several key measures related to international competitiveness require improvement to be genuinely internationally competitive and drive the business of ship ownership to Australia.



Australia needs shipping, but the Taskforce is disheartened by the decline of the Australian fleet, and the almost complete reliance on foreign-flagged vessels. The Australian fleet currently stands at only 15 vessels over 2000 deadweight tonnes (DWT) (11 on the coast and 4 trading internationally), meaning that in a crisis, we would have great difficulty accessing and controlling the maritime assets that we might require. This puts us in a dangerous position and needs to be reversed.

Our maritime workforce is also of critical importance. Demand for Australian seafarers is outstripping supply across the maritime industry, and without action, the Australian maritime workforce will not be able to meet the needs of the strategic fleet and the broader economy. Stakeholder advice suggests that existing operators of Australian-flagged vessels are already struggling to find appropriately qualified Australian crew. There is increasing global demand for Standards of Training, Certification and Watchkeeping (STCW) qualified seafarers and this will make it increasingly difficult for Australia to attract and retain skilled people, even through the use of work visas and migration.

Taskforce consultation shows that there is goodwill and interest from industry in supporting a strategic fleet and training initiatives, but that cost is a challenge. The Taskforce understands there is a cost differential between operating Australian-flagged and foreign-flagged vessels and that this needs to be addressed.

As a nation we need an Australian fleet and maritime workforce but it will take change, Government assistance and long-term investment – and this will need to be sustained well into the future.

## Moving forward

The Taskforce believes that building a fleet capable of meeting Australia's strategic needs will take more than 12 vessels. The maritime industry needs revitalisation and incentives to grow and support our economic and security needs, and to ensure our maritime workforce is skilled appropriately and attracting new entrants for the years to come.

Without a sustainable pool of Australian-flagged vessels and crew, the ability for Government to access a strategic fleet in times of need will be almost impossible. There have been previous attempts by Government to maintain and rebuild an Australian fleet, but the decline has continued. The Taskforce acknowledges that this time we will need to do something different if we are to attract and retain vessels on the two Australian shipping registers – the Australian General Shipping Register, and the Australian International Shipping Register.

To grow the pool of Australian-flagged vessels the cost differential has to be addressed, to encourage the Boards of the owners/operators to make the decision to re-flag and crew with Australians. This will need a mix of approaches to make re-flagging possible.

However, this should not be at the expense of fair wages and conditions. The Taskforce does not support a process that would lead to a decline in wages and conditions for Australian seafarers, and believes that the Australian community would expect no less.



Equally, the cost can't be passed on to onshore users of shipping, particularly those needed to support our sovereign manufacturing base. This would be counterproductive.

The Taskforce examined a number of options to make Australia an attractive place to register and operate a vessel. The Taskforce acknowledges that these build upon the platform put in place in 2012 to revitalise Australian shipping, including the tax incentives implemented at that time.

The options examined included providing Government assistance to make operating an Australian-flagged and crewed vessel cost competitive, changes to taxation arrangements for companies and seafarers, regulatory changes to reduce cost for Australian vessels or increase cost for foreign-flagged vessels, and options to reduce other costs such as fees and charges. The Taskforce has determined that a combination of Government assistance and tax measures will be the most effective.

The Taskforce has noted the long-term nature of shipping investment and identified that certainty is critical to enable the private sector to make such long-term investment decisions. The Taskforce suggests any measures put in place by Government will need long-term support, contractual agreements that are maintained for at least 10 years and that bipartisan commitment will be needed to underpin certainty.

The Government has stated that the strategic fleet would be available for requisitioning in times of national need, be that natural disaster, critical supply chain disruptions or times of conflict. The Taskforce notes that Government does not currently have powers to requisition Australian vessels in times of need, beyond powers available under the Defence Act 1903 (the Defence Act) that are only enlivened during declared times of war. The Taskforce has examined two options to provide the Government with the mechanism to requisition Australian-flagged vessels.

The first is to requisition through contractual agreement with vessel owners/operators to guarantee access in certain circumstances. The second is requisitioning by legislation. Both would include appropriate compensation terms. The Taskforce recommends that the Government legislate the power to requisition ships to provide certainty of access to maritime capability with complementary contractual arrangements to maximise flexibility.

While the Taskforce sees the need for broader revitalisation of the industry, it also recognises this will take some time and that early action is needed. The Taskforce supports the Government putting in place a process to get 12 vessels as soon as possible and has identified its recommended fleet composition. These vessels will be the start of what is hoped to be a fleet that will grow to be in the order of 30–50 in number, sufficient to provide a sustainable pool of capability.

The Defence Strategic Review shows working with Defence will be crucial, particularly given its focus on national defence and a whole-of-government response. The Taskforce notes the strategic fleet should both complement the current work of Defence, particularly in response to humanitarian and disaster response situations, and to support future requirements in any conflict scenario given the changing geopolitical situation in the region as highlighted in the Defence Strategic Review. The composition of the fleet needs to support this work. The role of the strategic fleet will be an important consideration in the development of the upcoming National Defence Strategy that was recommended in the Defence Strategic Review.



The Taskforce notes crewing is a problem worldwide and recognises that even crewing 12 vessels with Australians could be a challenge right now. Australia needs to support a training and workforce environment that encourages and grows our own maritime skills. The Taskforce believes this can be supported by a cadetship program, mandatory berths on strategic fleet vessels, targeted skilled migration and better coordination between governments and industry. A greater alignment between Defence and civilian training and qualifications will also play a part.

The Taskforce has also considered how to fund both the strategic fleet and training and workforce development. The Taskforce considers there is an argument to establish a specific purpose revenue stream and suggests that levies are a viable way to fund this. However, the Taskforce notes that further analysis is required to ensure that any levy does not have an adverse impact on any of Australia's international obligations, particularly those relating to trade.

The Taskforce also sees opportunities to complement the work of the strategic fleet and support other objectives of Government. Working with like-minded governments and companies provides an opportunity to strengthen our supply chains and supplement capacity provided by the strategic fleet. Australia, New Zealand and Pacific island nations are all part of the same supply chain and face common risks to supply – exploring partnerships with these nations could provide benefits to all.

There are also opportunities to support the Government's efforts and commitments on decarbonisation through the fleet, but the Taskforce notes this should not be a barrier to re-flagging. The Taskforce also notes that there is an opportunity for the Government to contribute to the strategic fleet and training through the use of its own non-Defence fleet.

The Taskforce also considered services to the external territories (Norfolk, Christmas and Cocos-Keeling Islands). The Taskforce notes that the strategic fleet could include vessels that deliver cargo to Australia's external territories. The Taskforce believes these vessels should be additional to the core 12 vessels included to meet strategic need, but could be funded from the strategic fleet levy.

Finally, the Taskforce acknowledges that this is a complex undertaking with many moving parts, with an industry that has regular boom and bust cycles. The availability of crew is also uncertain and training takes time, and given world-wide demand for seafarers attracting skilled migrants could be problematic. The effect of the measures will need to be closely monitored to ensure they are delivering the intended outcomes.



## Advice

While the Taskforce notes the Government's commitment and expectations, the Taskforce believes that advice is needed beyond the original intent of establishing a fleet of up to 12, but also sees 12 vessels as the first step on the path. Measures need to be put in place that will set the environment for greater long-term investment, and ultimately revitalise the industry. In the current geopolitical climate measures will also need to complement the work of Defence as they respond to the Defence Strategic Review.

Without this broader framework, it will be difficult to attract and retain vessels in a strategic fleet of any number. If we get the broader measures right, we will have a growing strategic fleet that will be self-sustaining and provide much greater certainty for our economic sovereignty and national security.

The Taskforce's overarching advice is that changes are needed to Australia's taxation and regulatory environments, to provide certainty to invest and provide the framework for industry revitalisation. The Taskforce has made a number of specific recommendations on the shipping regulatory environment, particularly to establish a requisitioning power, enhance the Australian shipping registers, and to support levy collection.

The Taskforce recommends the Government review existing shipping regulations (including coastal trading legislation), as well as the compliance framework associated with the payment of wages on foreign vessels engaged in coastal trading, first as detailed implementation arrangements for the fleet are developed and second, after the fleet has been in operation for a while (a Post Implementation Review). This will ensure the regulatory environment supports the strategic fleet and allows the fleet to compete on a level playing field in the market.

As well, increased Government assistance for workforce training and development will be needed to ensure a steady supply of Australian seafarers, vital for our maritime industry to be maintained. Government assistance to ship owners/operators will be needed at least initially to encourage re-flagging and to 'seed' the fleet, with 12 ships as a starting point. The Taskforce has provided advice on the composition of this first fleet.

The Taskforce acknowledges that any assistance will have to provide Government with the right fleet for the right price, and that Government needs to put in place transparent and open processes to assess capability and value for money.

The Taskforce considers a levy on all vessel arrivals could fund the assistance needed for the strategic fleet, and a levy on a broad pool of end users of maritime skills should fund training initiatives.

The Taskforce also sees additional opportunities to support the fleet and other areas of Government endeavour, such as working with our Pacific neighbours to strengthen maritime supply chains and decarbonisation efforts.

The Taskforce recommends that a Post Implementation Review be undertaken one year after the first strategic fleet vessels are selected and receive Government assistance, to ensure that all the measures are working as intended and outcomes are being achieved. This should include the aforementioned consideration of whether the broader shipping regulatory environment is supporting the fleet.

The Taskforce has made 16 recommendations to Government. These are provided below with analysis contained in the Chapters of the Report.



## Introduction

### The Taskforce

The Government committed to strengthen Australia's economic sovereignty and national security by rebuilding an independent strategic fleet to secure our ongoing access to fuel supplies and other essential imports and committed to appointing a Taskforce to guide it on the establishment of the fleet. On 20 October 2022, the Hon Catherine King MP, Minister for Infrastructure, Transport, Regional Development and Local Government announced the appointment of the Strategic Fleet Taskforce and its Terms of Reference. The Taskforce commissioned research and analysis and consulted with stakeholders to provide an evidentiary basis for its final report.

### Australian shipping context

Shipping is critical to Australia's social and economic well-being. Shipping moves 99 per cent of Australia's goods traded by volume, and around 79 per cent by value. In 2021–22, 1.644 billion tonnes of imports and exports were moved by sea, worth \$755 billion in total.

In 2021, there were 26,400 foreign-flagged vessel arrivals in Australia, by 6,170 unique foreign vessels. Bulk carriers accounted for the majority of vessel arrivals at 56 per cent of all ship arrivals and container ships accounted for 13.9 per cent.

As of December 2022, there are 11 Australian-flagged and crewed vessels over 2,000 deadweight tonnes (DWT) holding General Licences under the *Coastal Trading (Revitalising Australian Shipping) Act 2012* (the Coastal Trading Act) that operate in Australia's coastal trade. In 2021, 504 unique foreign vessels undertook 2,309 voyages under a Temporary Licence under the Coastal Trading Act.

## The Strategic Fleet

### Strategic needs

The Taskforce identified the most significant strategic freight needs in any disruption as primarily imports and the coastal trade. This freight includes the import and coastal movement of fuel, agricultural, and industrial chemicals, and imported containerised goods. However, the Taskforce noted that some components of the strategic freight needs identified were of such a scale as to be beyond the expected capacity of a prospective Australian strategic fleet to move. This included the international movement of large volumes of crude oil and refined petroleum, and large volumes of imported cargo in containers. The Taskforce identified three prime strategic purposes of the fleet – to respond to disruption events, support sovereign manufacturing industries and to support the Defence Forces.

Following the identification of the strategic freight needs the Taskforce undertook further research and analysis of international models, the preferred composition of the strategic fleet, commerciality and route analysis and the major challenges with growing the Australian fleet. Findings from this analysis were tested through consultation with key stakeholders.



## The major challenges to establishing the strategic fleet and options to address them

The Taskforce identified several challenges which have impeded Australian shipping to date, and are likely to affect the attractiveness of re-flagging vessels in Australia that are needed to establish and grow the strategic fleet. These challenges include cost (predominantly crew costs); Australia's regulatory environment; conditions associated with the registration of vessels in Australia; and seafarer training and workforce issues.

The Taskforce considered several options to address the challenges. The Taskforce determined that a combination of taxation changes and a Government subsidy were the best methods to address the cost gap, and recommended the introduction of a levy to pay for the subsidy. The Taskforce also determined that strategic fleet vessels must be on the Australian General Shipping Register (AGSR) and that the Coastal Trading Act should be reviewed to ensure it supports the implementation of the strategic fleet. The Taskforce also identified its preferred fleet composition with vessels that would best respond to disruption events, support sovereign manufacturing and support the Defence Forces. The Taskforce also recommended that compliance actions be strengthened to ensure the payment of existing Schedule A wages to foreign crew on vessels operating under a Coastal Trading temporary licence.

## Requisitioning

The Government's strategic fleet commitment includes an expectation that vessels in the fleet will be available for requisition by the Government in times of national crisis such as natural disaster or conflict.

The Commonwealth does not have powers to requisition vessels beyond powers enlivened under the Defence Act in declared times of war. There are a number of circumstances when the use of ships is necessary to respond to non-conflict scenarios such as natural disasters or supply chain disruptions. Previously, foreign-flagged vessels have provided some of the maritime disaster response capability Australia has required. However, total reliance on foreign-flagged vessels leaves Australia vulnerable.

In developing its advice, the Taskforce considered the current requisitioning frameworks in place across domestic and international jurisdictions including regulatory, contractual and government ownership models. Based on research and extensive stakeholder consultation, a combined legislative and contractual mechanism is preferred as it would provide the Government with certainty and a degree of flexibility in its capacity to requisition vessels so that Australia can access the maritime capability it requires during times of crisis.



## Maritime workforce and training

Australia is facing a shortage of maritime skills including deck officers, engineers and ratings, with demand already outstripping supply. Without action, the Australian maritime workforce is unlikely to be able to meet the needs of current industry and will not be able to meet the needs of an Australian strategic fleet, which adds vulnerabilities to our supply chains and diminishes our sovereign capabilities.

There are major challenges to growing Australia's maritime workforce including the costs associated with training, limited number and diversity of vessels in our major trading fleet, lack of access to available berths on vessels, and the difficulty organisations face retaining skilled workers following completion of their training. To overcome these challenges, a suite of complementary measures designed to grow and develop Australia's maritime workforce and skills pipeline are recommended to ensure there is a sufficient supply of seafarers with internationally recognised qualifications (STCW) to meet future demand.

## Other measures

During the course of its deliberations and consultations the Taskforce identified other measures that could complement the strategic fleet or support broader outcomes of Government. The Taskforce has included these measures as opportunities the Government may wish to investigate further.

These measures include:

- Working with Defence
- Partnerships with other countries and companies
- Links to decarbonisation efforts and use of green fuels
- Ships operated by government agencies
- Servicing Australian external territories
- Partnerships with states and territories

## Monitoring the outcomes

The Taskforce recognises that the task of building a strategic fleet, growing a domestic maritime workforce and revitalising the industry is complex and challenging. The advice provided by the Taskforce to meet this challenge has many components. Given the complexity and breadth of the measures the Taskforce is recommending, and the volatility of the shipping market, the Taskforce believes it is important that implementation be closely monitored.

## Recommendation 1.

### Options to address the cost gap and establish the fleet

The Taskforce recommends the identified cost gap between Australian and foreign vessels be addressed through a combined measure of shipping taxation incentives in line with international norms, and Australian Government financial assistance provided to ship owners and operators.

Proposed changes to the taxation arrangements are:

- Reforming the seafarer tax offset to remove the current restrictions on seafarer eligibility so the offset applies to all Standards of Training, Certification and Watchkeeping (STCW) qualified seafarers and for any shipping activity in which those seafarers are engaged;
- Reforming the shipping corporate income tax exemption to introduce deemed franking credits in respect of dividends to shareholders, to make vessel ownership and/or operation from Australia more internationally competitive; and
- Extending application of the existing shipping tax incentives and the corporate income tax exemption to qualifying vessels servicing the offshore sector.

The Taskforce considers that a Government assistance program provides the mechanism by which to bridge the cost gap and allows the Government to target capabilities consistent with the prime strategic needs identified by the Taskforce – to respond to disruption events, support sovereign industry and assist Defence.

The Taskforce further considers that it is important to the success of this program that any assistance that is provided to eligible applicants is done so with appropriate safeguards to ensure value for money is achieved and other behaviours such as price-gouging are guarded against. The Taskforce considers that this could be achieved through an open, transparent and competitive tender process.

The Taskforce notes that while Government assistance to ship owners and operators alone would be sufficient to close the cost gap, the magnitude of Government assistance required would be reduced with application of a revised seafarer tax offset and revised corporate taxation exemption which, if applied broadly to Australian vessels, will have the advantage of promoting more general investment in the Australian shipping industry. This in turn will contribute to a broader pool of Australian vessels and skilled seafarers, which the Government could draw upon when required.

## Recommendation 2.

### Composition of the fleet

The Taskforce recommends that the strategic fleet comprise vessels of the following types, and be of a size that will meet the three prime strategic purposes of the fleet – to respond to disruption events, support sovereign manufacturing industries and to support the Defence Forces:

- Container vessels with geared ship cranes capable of independent container operations;
- Multipurpose vessels (MPV) capable of carrying project cargo, containers and some bulk cargoes, and unload these using geared ship cranes;
- Roll-on roll-off/roll-on lift-off (RO-RO/RO-LO) vessels;
- Liquid bulk vessels configured to carry multiple grades of fuel and chemical products in independent tanks;
- Dry-bulk vessels; and
- Break-bulk vessels.



### **Recommendation 3.** **Establish a strategic fleet levy**

The Taskforce recommends that the Government establish a levy on vessel arrivals as a mechanism to fund the strategic fleet. The levy should:

- Be modelled on the existing AMSA levies, calculated on a net tonnage basis for each ship arrival; and
- Accumulate and maintain sufficient funding to:
  - Make payments to strategic fleet ships owners/operators that matches the ship operational cost gap; and
  - To help defray the cost of registering a strategic fleet ship on the Australian General Shipping Register.

### **Recommendation 4.** **Strategic Fleet vessels must be on the Australian General Shipping Register (AGSR)**

The Taskforce recommends that strategic fleet vessels must be registered on the AGSR.

The Taskforce also recommends the Government amend the AGSR to:

- make vessel registration more streamlined; and
- make it closer to those practices in place in competitive flag-state jurisdictions.

### **Recommendation 5.** **Improving the Australian International Shipping Register (AISR)**

The Taskforce considers there is merit in the Government reviewing the provisions of the AISR to identify if they can be made more attractive to encourage the registration of vessels under this Australian register.

### **Recommendation 6.** **Review the Coastal Trading Act**

The Taskforce recommends that the Government should review the *Coastal Trading (Revitalising Australian Shipping) Act 2012* (the Coastal Trading Act) to ensure the object and the provisions of the Coastal Trading Act support the implementation of the strategic fleet. The review should occur after the design of the assistance and taxation measures have been completed so that specific legislative provisions reflect implementation arrangements for the strategic fleet.

The Taskforce considers that the following should be key considerations of the review:

- That a strategic fleet ship be defined;
- Ensure that cargo volume and trade (including strategic fleet cargo/trade) on General Licence vessels are not undermined by the awarding of Temporary Licences;



- A General Licence holder (including a General Licence owner/operator of a strategic fleet ship) be given the first right of refusal to arrange for a Temporary Licence ship/s to carry cargo in the trade of the General Licence ship/s cargo in excess of that able to be transported by its General Licence ship/s;
- If the General Licence ship owner/operator does not exercise that right, the owner, charterer, master or agent of a vessel, or a shipper (as defined in the Coastal Trading Act) have the opportunity to apply for a Temporary Licence to carry that cargo/ trade; and
- That the s33 Comments by third parties provision in the Coastal Trading Act be strengthened to provide for monitoring, reviewing and scrutinising the awarding of Temporary Licences in accordance with the principles outlined above.

The proposal for the review reflects stakeholder concerns that the implementation of the current Act has not achieved its purpose, and that strategic fleet cargo volumes and trade could be undermined by the current approach to awarding of Temporary Licences.

The Taskforce recognises the dual benefits of an efficient and robust cabotage regime in supporting Australia's sovereign maritime capability, sovereign manufacturing industries and domestic trade. Addressing the cost gap between Australian and foreign ships and ensuring a robust regulatory environment that preserves domestic cargo for Australian ships (including strategic fleet ships) are critical policy elements that must work together to realise these benefits.

## **Recommendation 7.**

### **Increase Fair Work Ombudsman compliance activities relating to the payment of wages on foreign vessels engaged in coastal trading**

The Taskforce recommends that the Government provide additional funding to the Fair Work Ombudsman to increase compliance activities relating to the payment of Seagoing Industry Award 2020 Schedule A Wages on foreign vessels operating under Temporary Licence.

The Taskforce notes there is limited information available regarding the compliance of foreign vessels engaged in coastal trading under a Temporary Licence with the requirement to pay additional Schedule A wages from the third voyage onwards in any 12-month period.

Stronger administrative oversight will provide information to Government to better understand the extent of non-compliance and enable decisions to be made regarding what measures are required to increase compliance.



## **Recommendation 8.** **Legislate the power for requisitioning**

The Taskforce recommends the Government legislate the power to requisition Australian-flagged vessels and establish a complementary capacity to requisition vessels through contractual arrangements with vessel owners and operators of strategic fleet and non-strategic fleet vessels to provide it with the greatest flexibility and assurance of access to vessel capability when required. The extent of the legislative power and terms of the contractual arrangements must provide certainty to stakeholders regarding issues such as the terms of requisition, threshold for requisitioning, and compensation including circumstances of liability and indemnity.

## **Recommendation 9.** **Better coordination between governments and industry on maritime training**

The Taskforce recommends that the Transport and Logistics Jobs and Skills Council (JSC) expedite its Maritime Workforce Development Plan and work in collaboration with Commonwealth and state government agencies and industry to ensure that the maritime training package is fit for purpose and considers the needs of Australia's maritime industry in the context of implementation of the strategic fleet. As part of this work, the JSC should:

- map relevant existing training programs and initiatives to assist people interested in working in the maritime industry to navigate career pathways;
- provide advice to the Government on options to better coordinate designing and implementing initiatives to develop Australia's maritime workforce;
- undertake maritime workforce planning, involving development of seafarer supply and demand forecasts;
- consider how to better coordinate placement of cadets and trainees on vessels across the Australian and international shipping industry to complete mandatory sea time requirements to obtain STCW qualifications, including the option of expanding the use of a Group Training Organisation to coordinate the placement of trainees/cadets in both on-the-job and off-the-job placements; and
- consider options to accelerate the supply of Australian seafarers such as revalidation and recognition of current competencies for partially qualified seafarers.

## **Recommendation 10.** **Implement a training levy**

The Taskforce recommends that the Government should legislate to implement a training levy on maritime industry participants that are beneficiaries of STCW qualified seafarers to fund a financial assistance package to assist employers and sponsors of trainees and cadets to meet the costs of training seafarers to obtain STCW qualifications.



## **Recommendation 11.**

### **Establish a cadetship program funded by the training levy**

The Taskforce recommends that the Government should establish a cadetship or similar scheme to provide financial assistance to organisations that provide berths for cadets and trainees to complete mandatory sea time requirements to obtain STCW qualifications. As far as possible, the cadetship or similar scheme should draw on the Government's existing schemes to support training such as those that support apprenticeships and traineeships.

## **Recommendation 12.**

### **Mandate a minimum number of training berths on strategic fleet vessels**

The Taskforce recommends the Government mandate a minimum number of training berths be offered on each vessel in the strategic fleet per annum on top of the existing minimum number of trainees as required to access the zero corporate tax regime. Any additional costs arising from the mandate should be met by one of the funding options proposed for the strategic fleet to ensure it does not create a disincentive to joining the strategic fleet.

## **Recommendation 13.**

### **Greater alignment between Defence and civilian maritime training and qualifications**

The Taskforce recommends:

- a. The Australian Maritime Safety Authority, civilian mariner institutions, Defence and the Transport and Logistics Jobs and Skills Council work collaboratively to explore opportunities to facilitate greater alignment between Defence and civilian maritime training and qualifications to enable more flexible movement between Navy and the commercial sector.
- b. The Australian Maritime Defence Council be re-established to become the principal forum through which the Defence/Navy sealift and other requirements such as workforce development can be harmonised with the civilian shipping industry and strategic fleet ship owners/operators to support the Government's national security and defence objectives, including those arising from the Defence Strategic Review.

## **Recommendation 14.**

### **Consider a short-term increase in migration for STCW seafarers**

The Taskforce recommends the Government consider targeting an increase in migration for STCW qualified seafarers to help alleviate labour shortages in Australia's maritime industry until such time as the supply of appropriately qualified Australian seafarers increases sufficiently. Skilled migration should only be pursued as an option of last resort if an adequate supply of STCW qualified seafarers cannot be sourced domestically.



## Recommendation 15.

### Other measures

The Taskforce recommends that the Government undertake further investigation of opportunities identified for measures that could complement the strategic fleet or support broader outcomes of Government. These measures include:

a. **Working with Defence**

The Taskforce notes the recommendations of the Defence Strategic Review, and recommends that the development of the National Defence Strategy should include the potential role of a strategic fleet including the role and needs of a strategic fleet in relation to Defence infrastructure investment (particularly any redevelopment of the Henderson ship dry-docking facilities).

b. **Partnerships with other countries and companies**

The Taskforce recommends that the Government explore opportunities to partner with other countries and with non-Australian shipping companies to secure additional shipping capacity to supplement the capability of the strategic fleet that may be required in times of a national emergency.

c. **Links to decarbonisation efforts and use of green fuels**

The Taskforce recommends government explore where government investment in reducing greenhouse gas emissions might extend to reducing or eliminating emissions from strategic fleet vessels.

d. **Ships operated by government agencies**

The Taskforce recommends the Government increase the use of non-Defence government owned vessels to respond to disasters and other disruption situations and ensure that government vessels contribute to training outcomes.

e. **Servicing Australian External Territories**

The Taskforce notes that the strategic fleet could include vessels that deliver cargo to Australia's external territories, but recommends these vessels be additional to the core 12 vessels included to meet strategic need. The Taskforce also recommends that these vessels be funded be from the strategic fleet levy.

f. **Partnerships with states and territories**

The Taskforce recommends that the Australian Government partner with the states and territories to strengthen supply chain resilience.

## Recommendation 16.

### Monitor the outcomes through a Post Implementation Review

The Taskforce recommends that a Post Implementation Review (PIR) be conducted a year after the first strategic fleet vessels are selected and receive government assistance. This should also cover the impacts of training and workforce initiatives.



SPIRIT OF TASMANIA

# 1. INTRODUCTION





# 1. INTRODUCTION

The Australian Government committed to strengthen Australia's economic sovereignty and national security by rebuilding an independent strategic fleet to secure our ongoing access to fuel supplies and other essential imports.

The strategic maritime fleet would likely include up to a dozen vessels that would be Australian-flagged and crewed and expected to be privately-owned and operate on a commercial basis. The vessels would be available to Government for requisition during times of national need such as natural disaster or times of conflict. As a first step towards establishing the strategic fleet, the Government committed to appointing a Taskforce to guide it on the establishment of the fleet as quickly as possible.

## The Strategic Fleet Taskforce

On 20 October 2022, the Hon Catherine King MP, Minister for Infrastructure, Transport, Regional Development and Local Government (Minister King), announced the appointment of the Strategic Fleet Taskforce (the Taskforce) and its Terms of Reference. The members were appointed by the Minister based on their expertise in one or more of the maritime, logistics and Defence sectors.

The first meeting of the Taskforce was held on 24 October 2022, and the Taskforce met a total of 17 times until the submission of this final report. The Taskforce was supported throughout the term of its appointment by a secretariat team within the Department of Infrastructure, Transport, Regional Development, Communications and the Arts (DITRDCA).

### Taskforce membership

- **Mr John Mullen (Taskforce Chair)** – Chairman of Telstra, Brambles, former Chairman of Toll Logistics;
- **Ms Angela Gillham** – Chief Executive Officer, Maritime Industry Australia Limited;
- **Dr Sarah Ryan** – Non-Executive Director (in no particular order) Aurizon, OZ Minerals, Viva Energy, Woodside Energy;
- **Mr Paddy Crumlin** – National Secretary, Maritime Union of Australia; and
- **Major-General Jason Walk** – Commander, Joint Logistics, Department of Defence.

The Taskforce was guided by a Terms of Reference which provided the scope by which the Taskforce would advise Government. The Taskforce's full Terms of Reference are provided at **Appendix A**. The Terms of Reference established a two-phase approach for providing advice on establishing the fleet to Government.

### The work of the Taskforce

Under Phase One of the Terms of Reference, the Taskforce was asked to deliver an interim report containing an assessment on the strategic need the maritime strategic fleet could support. The Taskforce's interim report was submitted to Government on 22 December 2022.

During Phase Two the Taskforce built upon the strategic needs identified and their work in Phase One by analysing:

- the composition of the strategic fleet;
- the types of cargo that could be moved;
- industries likely to use the fleet;
- potential commercial partners; and
- the routes on which ships could operate.

It also considered costs associated with establishing and maintaining the fleet, workforce issues, and opportunities for a fleet to contribute to other Government priorities.



The Taskforce has considered methods to encourage shipowners to re-flag and employ Australian seafarers; identifying maritime policy options that would provide the Government with a direct ability to reduce supply chain risks; assessing whether the current regulatory framework is fit for purpose to support the strategic fleet; and developing recommendations on the establishment and sustainability of the strategic fleet.

## Consultation

Consistent with its Terms of Reference, the Taskforce engaged in broad stakeholder consultation throughout its appointment. In Phase One, consultation included the release of a discussion paper with an associated submission process that sought stakeholder views on the strategic purpose of the fleet.

Fifty-nine submissions were received in response to this discussion paper, from a range of stakeholders including academics, Commonwealth and State agencies, private citizens, maritime unions, shipping providers, onshore users of shipping, port authorities, and peak industry bodies.

The Taskforce also conducted targeted consultation sessions engaging separately with maritime unions, onshore users of shipping, shipping providers and fuel and energy users of shipping. These sessions enabled in-depth discussions about the strategic purpose of the fleet, while allowing participants to ask and answer questions.

Consultation in Phase Two included further targeted engagement with industry. The Taskforce met separately with 17 select ship owner and operator stakeholders to test the viability of potential options developed to implement and support the fleet. The Taskforce met again with eight of these stakeholders in May and June 2023 to test the Taskforce's recommendations.

The Taskforce also issued an open invitation to stakeholders to submit plans, options or ideas for the strategic fleet, with 17 responses received.

During its appointment, the Taskforce was briefed by representatives from Government agencies on issues related to the establishment of the fleet, including: critical supply chains; Australian Defence Force mobilisation and related shipping needs; existing and proposed skills and training initiatives implemented by the Australian Government and states and territories; liquid fuel supply chains; decarbonisation; and, greenhouse-gas emissions reduction initiatives.

## Analysis to support the work of the Taskforce

The Taskforce was supported by external consultants commissioned to provide analysis and ensure recommendations are supported by evidence. In Phase One, this analysis was provided by PriceWaterhouseCoopers who completed analysis on: Australia's shipping industry; current and future cargo volumes; the current state of the maritime workforce; and, supply chain disruption.

In Phase Two, analysis was provided by GHD including analysis of: domestic and international shipping, crewing and freight rates; the models used in comparable nations to develop maritime capability, including those similar to the strategic fleet, and analysis of domestic and international requisitioning arrangements; the state of the Australian maritime workforce and the future skills need; and the development of a cost model for strategic fleet vessels; and a report examining the costs and impacts of specific strategic fleet operational scenarios.

This analysis has supported Taskforce deliberations and informed the Taskforce's recommendations.



## Other matters

The Taskforce Terms of Reference specify that the Taskforce should have regard to recent policy reviews, reports or research commissioned by Australian governments related to the work of the Taskforce.

The Taskforce has considered the reports delivered to Government, including the 2023 National Defence – Defence Strategic Review (Defence Strategic Review); and the 2013 Australian Maritime Workforce Development Strategy. The Taskforce has noted state and territory inquiries and reviews of issues in Australia’s maritime supply chains, notably that of the Western Australian Shipping and Supply Chain Taskforce.

## Australia’s shipping context

Shipping is critical to Australia’s social and economic well-being. Shipping moves 99 per cent of Australia’s goods traded by volume, and around 79 per cent by value. In 2021–22, 1.644 billion tonnes of imports and exports were moved by sea, worth \$755 billion in total.

## Australian shipping registers

Australia has two shipping registers – the Australian General Shipping Register, and the Australian International Shipping Register.

Vessel registration is a necessary prerequisite for ships to legally navigate the high seas. The United Nations Convention on the Law of the Sea gives a nation the right to fix conditions for the grant of its nationality to ships for the registration of ships, and for the right to fly its flag.

## Australian General Shipping Register

Under the *Shipping Registration Act 1981*, all Australian owned and operated ships that are 24 metres and over in tonnage length, and are capable of navigating the high seas must be registered on the Australian General Shipping Register (AGSR). Ships less than the 24 metres in length, government ships, fishing vessels, and pleasure vessels may be registered, but are not required to be.

## Australian International Shipping Register

The Australian International Shipping Register (AISR) is an optional shipping register for Australian companies that own or operate ships. The AISR was established in 2012 to provide a competitive vessel registration alternative for Australian shipowners and operators that predominantly engage in international trades.

Registration on the AISR provides access to income tax exemptions and other taxation incentives. Vessels on the AISR can operate with crews of mixed nationality (unlike the AGSR) – the majority of crew and officers are not required to be Australian citizens or residents, but two senior positions – engineering and deck officers – are to be filled by Australians. Before a vessel can be registered on the AISR, the owner of the ship must make a collective agreement with the ship’s seafarer’s bargaining unit.

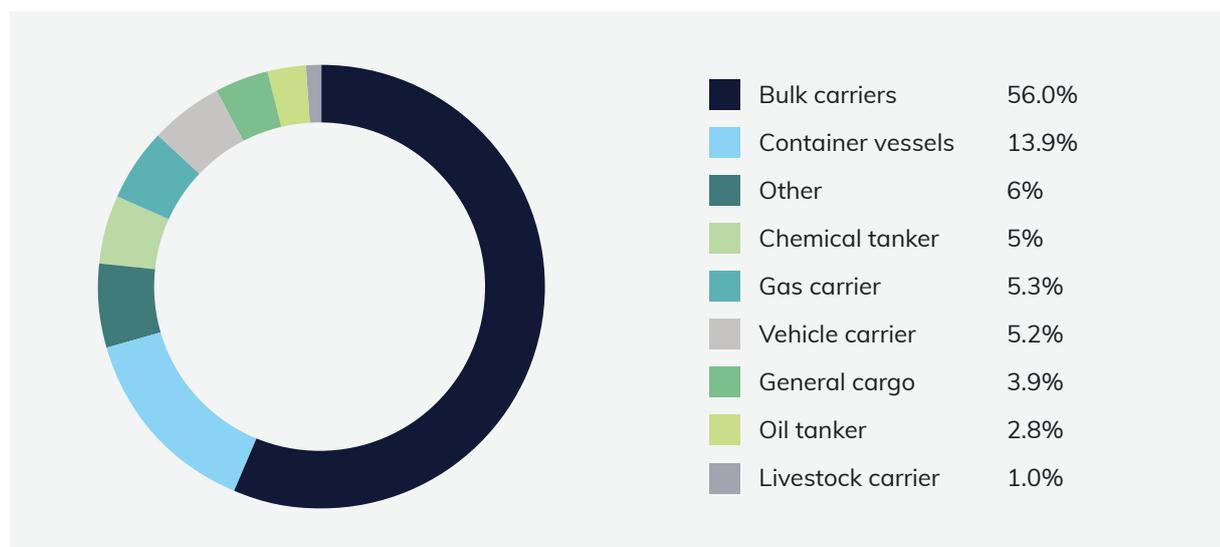
There has been limited uptake of the AISR, with just two registrations since it was established.



## Vessel activity

In 2021, there were 26,400 foreign-flagged vessel arrivals in Australia, by 6,170 unique foreign vessels.

Figure 1.1 Australian port arrivals – 2021



Bulk carriers accounted for the majority of vessel arrivals at 56 per cent of all ship arrivals at Australian ports, container ships accounted for 13.9 per cent, gas carriers accounted for 5.3 per cent, chemical tankers accounted for 5.2 per cent, general cargo ships accounted for 3.9 per cent and oil tankers accounted for 2.8 per cent.<sup>1</sup> Thirty-four passenger vessel arrivals were recorded in 2021 (in other), dropping from the 536 arrivals recorded in 2020 – due to the effects of the COVID-19 pandemic and restrictions on cruise vessel activity.

## Imports and exports

Exports account for 88.7 per cent of the total volume of sea freight handled in Australia. By volume, these exports are predominately bulk commodities such as iron ore, coal and liquified natural gas (LNG) representing 90.1 per cent of exports.<sup>2</sup>

The volumes and value of these exports provide resources businesses and their customers with power in the global bulk shipping market. Our economic performance is underpinned by our exports, which are dominated by our mining products, with China our largest export destination by value, taking 30 per cent of total exports.

## Bulk commodities exports

While Australia is a major exporter of bulk commodities, all Australian dry bulk export commodities are delivered free on-board (FOB), meaning freight from the port of origin is controlled by the buyer. All ships exporting Australia's dry bulk exports are delivered on foreign ships.

There are four Australian-registered and crewed LNG carriers operated by Shell Tankers Australia, that exclusively carry LNG from Western Australia's North West Shelf production area to customers in north-east Asia.

1 Australian Maritime Safety Authority, Port State Control Australia – 2021 Report.

2 Bureau of Infrastructure and Transport Research Economics (BITRE) – Statistical report, Australian sea freight 2020-21.



## Container trade

Much of Australia's imported goods come by container and these range from essential medical equipment, electrical and other manufactured goods to support the community and inputs to domestic production. Many exports are also containerised, such as agricultural goods. In 2020–21 Australia's major container ports – Brisbane, Sydney, Melbourne, Adelaide and Fremantle – handled a combined 8.4 million TEU of containers – around 1 per cent of the global container trade of 815 million TEU.

Global trade patterns are dominated by east-west flows (Asia-North America-Europe). Australia's geographic distance from this major route affects the availability of container shipping services, as does Australia's comparatively small share of the global container market. A significant volume of Australian container imports and exports transition through transshipment hubs such as Singapore.

Australia's trade moved in containers is worth approximately \$350 billion – reflecting the comparatively high-value products transported via container. As a small player in the global market, Australia has limited ability to influence routes and service offerings, particularly at ports with lower throughput. Australia has a relatively low frequency of liner shipping services and more limited connectivity than comparable countries in Europe and North America. Liner services operate on a schedule with a fixed port rotation, fixed frequency (e.g. weekly, fortnightly, monthly) with published dates and sometimes named day of calls at the advertised ports.

While there are some small Australian general cargo ships providing services to regional and remote areas, there are no Australian container ships engaged in trade between major Australian capital city ports or internationally.

## Fuel

In recent decades, Australia has decreased domestic production of refined petroleum, with several refineries converted into fuel import terminals. Australia has two domestic refineries remaining in operation – one operated by Viva Energy in Geelong, and the other operated by Ampol at Lytton in Brisbane, along with a few small facilities producing refined products. Australia therefore depends on imports to supply around 90 per cent of our annual refined petroleum needs, with 42,250 megalitres of refined petroleum products worth \$41.2 billion imported in 2021–22.

There are no Australian vessels that carry crude oil or petroleum imports or exports. Australia's fuel trade is conducted by foreign vessels, with 750–1000 fuel tanker vessel arrivals per year (2–3 deliveries per day), with crude oil and refined product sourced from a variety of countries.

## Offshore sector

Australia has a major offshore resources sector, primarily oil and gas fields located in Bass Strait, north-west Western Australia, and the Northern Territory. Australia is the world's largest LNG supplier (ahead of Qatar), with exports reaching a record high in 2021 of 81.2 million tonnes.<sup>3</sup>

The Australian offshore renewable sector is expected to be a significant future participant in the offshore sector. An area in the Bass Strait off Gippsland, Victoria was declared suitable for offshore wind energy in December 2022, with construction on Australia's first major offshore wind project anticipated to commence beginning in 2025.

Offshore vessels support exploration, construction and maintenance, extraction, and decommissioning and remediation activities related to the offshore sector. Evidence suggests that as of May 2023 there are approximately 40 foreign-flagged and 14 Australian offshore supply/support vessels operating in Australian waters.<sup>4</sup>

3 Geoscience Australia, Australia's Energy Commodity Resources 2022.

4 DITRDCA assessment of data from S&P IHS Markit vessel tracking service.



Offshore vessels are an important employer of Standards of Training, Certification and Watchkeeping (STCW) qualified Australian seafarers, both under the Australian flag, and under foreign flags. Besides those Australian-flagged vessels, Norway, Singapore, and the Bahamas are the predominant flag-states of offshore vessels operating in Australia.

Offshore vessels can aid response to some disruption events – with the Norwegian-flagged, Australian crewed *Far Saracen* (chartered by Bass Strait platform operator Esso) the first vessel to arrive in Mallacoota to provide aid to the local community during the 2019–20 bushfires.

## Australian Government vessels

Several Government agencies (predominantly the Department of Defence, the Australian Border Force, the Australian Maritime Safety Authority, the Australian Antarctic Division and CSIRO) use Australian-flagged and civilian crewed vessels that are managed, operated, or maintained by other businesses on their behalf. As part of stakeholder consultation, the Taskforce has engaged with these Australian businesses.

These vessels vary in characteristics and capability, from aviation training vessels with little to no cargo carrying capacity, to re-purposed offshore supply vessels and Antarctic resupply and scientific research vessels with diverse capability and significantly more cargo-carrying capacity (though significantly less than dedicated cargo vessels).

## Australia's domestic shipping task

Coastal shipping is an important element in Australia's domestic freight task, carrying around 15 per cent of the domestic freight task or 119.8 billion tonne-kilometres in 2018–19. For the same period, this represented a total 54.0 million tonnes of coastal freight loaded. This includes freight carried inter and intra-state under a coastal trading licence, and freight carried intrastate not under licence. The carriage of cargo intrastate is not required to

be conducted under coastal trading licence, but a licence can be granted under an opt in clause.

Australian cargo owners use foreign-flagged vessels to carry international and domestic cargoes. Organisations including ship owners, charterers, masters or agents of a ship, or shippers can be authorised by Temporary Licences under the Coastal Trading Act to use foreign-flagged vessels to carry domestic cargoes between Australian ports. As of December 2022, there are 40 current Temporary Licences. At the time of writing, the Department has received 539 applications for new Temporary Licences since the commencement of the Coastal Trading Act in 2012, with 488 granted across 89 organisations. Approximately 40–50 licences have been granted each year. Temporary Licences have a maximum one-year duration, though there is no limit on the number of voyages that can be authorised by a Temporary Licence in any 12-month period.

In 2021, 504 unique foreign vessels undertook 2,309 voyages under a Temporary Licence. In 2021, 30 foreign-flagged vessels operating under Temporary Licence recorded loading dates in 6 or more months in 2021 and performed 938 (40.6 per cent) of the 2,309 total voyages performed. Conversely, 183 (36.3 per cent) of the 504 vessels that performed a coastal trading voyage in 2021 performed just 1 voyage.

Vessels in this foreign fleet include container vessels (which appear more active in coastal trading given the pattern of calling at multiple Australian ports as part of a continuing international voyage); dry bulk carriers; RORO vessels; and LPG tankers. Container ships operating under a Temporary Licence are typically carrying only a proportion of domestic containers i.e. a mix of domestic and international containers, in contrast to bulk carriers operating under a Temporary Licence where the full cargo is typically domestic freight.

Foreign container carriers take on board domestic cargo at minimal marginal cost in circumstances where they have already recovered costs through their international container cargo. The Temporary licence regime has allowed cargo owners to choose foreign



container ships at this lower price and is one of the factors that has discouraged Australian shipowners from investing in Australian container ships.

Foreign-flagged vessels move liquid fuel domestically from import terminals or refineries to Australian end users. In 2021, 80 foreign vessels operating under a Coastal Trading Temporary Licence moved 3.4 million metric tonnes (MT) of liquid fuels between Australian ports.

## History of Government intervention

Australia has had several attempts at creating and maintaining a larger register of Australian-flagged vessels, initially through a Government-owned, operated and subsidised fleet (1940s until the 1990s), through the Australian Shipping Board and then through its replacement the Australian National Line (ANL). Following ANL's increasing costs, poor financial performance, and an increasing need for Government financial support the Government declared its intention to privatise it in 1991. In 1998, CMA CGM bought the naming rights of ANL Limited from the Government.

Australia's cabotage arrangements were originally provided through the Navigation Act 1912 which established a licence and permit system that granted conditional access to coastal trade. The current cabotage arrangements are covered by the Coastal Trading Act, which enables foreign vessels to carry domestic cargoes under Temporary Licences. The Coastal Trading Act was introduced as a part of a major shipping reform package commencing in 2012 intended to revitalise the Australian shipping industry. This omnibus reform packaged introduced into Parliament in 2012 amended existing legislation or introduced new legislation to provide an enhanced framework for

Australian shipping, including (in addition to the Coastal Trading Act):

- Taxation concessions:
  - Income taxation exemption for Australian shipping operators on qualifying shipping income;
  - Accelerated depreciation of vessels via a cap on the effective life of vessels;
  - Roll-over relief from income tax on the sale of an eligible vessel;
  - A refundable tax offset for Australian shipping operators who employ Australian resident seafarers – the Seafarers Tax Offset; and
  - An exemption from royalty withholding tax for payments made by an Australian resident to a non-resident as consideration for the bareboat or demise charter of eligible vessels.
- Shipping registration changes, including:
  - Introducing a second Australian shipping register – the Australian International Shipping Register (AISR), established to provide a competitive vessel register alternative for Australian shipowners and operators that predominantly engage in international trades.
  - Registry on the AISR provides access to taxation incentives, as well as the ability to operate with a mixed international-Australian crew.
- A re-written and modernised Navigation Act 2012, including:
  - Removal of cabotage arrangements with the passage of the Coastal Trading Act.

Shipping is an international industry and Australian vessels are subject to competition in various situations from international ships. Vessels have the regulatory framework provided by their flag state and therefore, international vessels are subject to regulatory regimes and other characteristics of their flag



country. This translates into lower wages, variations in working conditions, taxation regimes and other factors that lower the operating costs for these vessels.

Changes to the coastal trading regulatory framework allowed the cargo owner to make the decision about which vessel to use. The changes did not include a mechanism to enable Australian vessels to get preferential access to the carriage of domestic cargo under long-term contracts of affreightment. This has meant that in many circumstances, where the owners of cargo previously owned or chartered their own vessels, they now have the opportunity to use foreign-flagged and crewed vessels with lower cost structures. Naturally, once these businesses identified ways to use cheaper options to transport their goods, then Australian shipping was priced out of the market. At the same time, onshore manufacturing facilities that used shipping were also closing – for example steel making in Newcastle, which has reduced the volume of some coastal cargo to be carried.

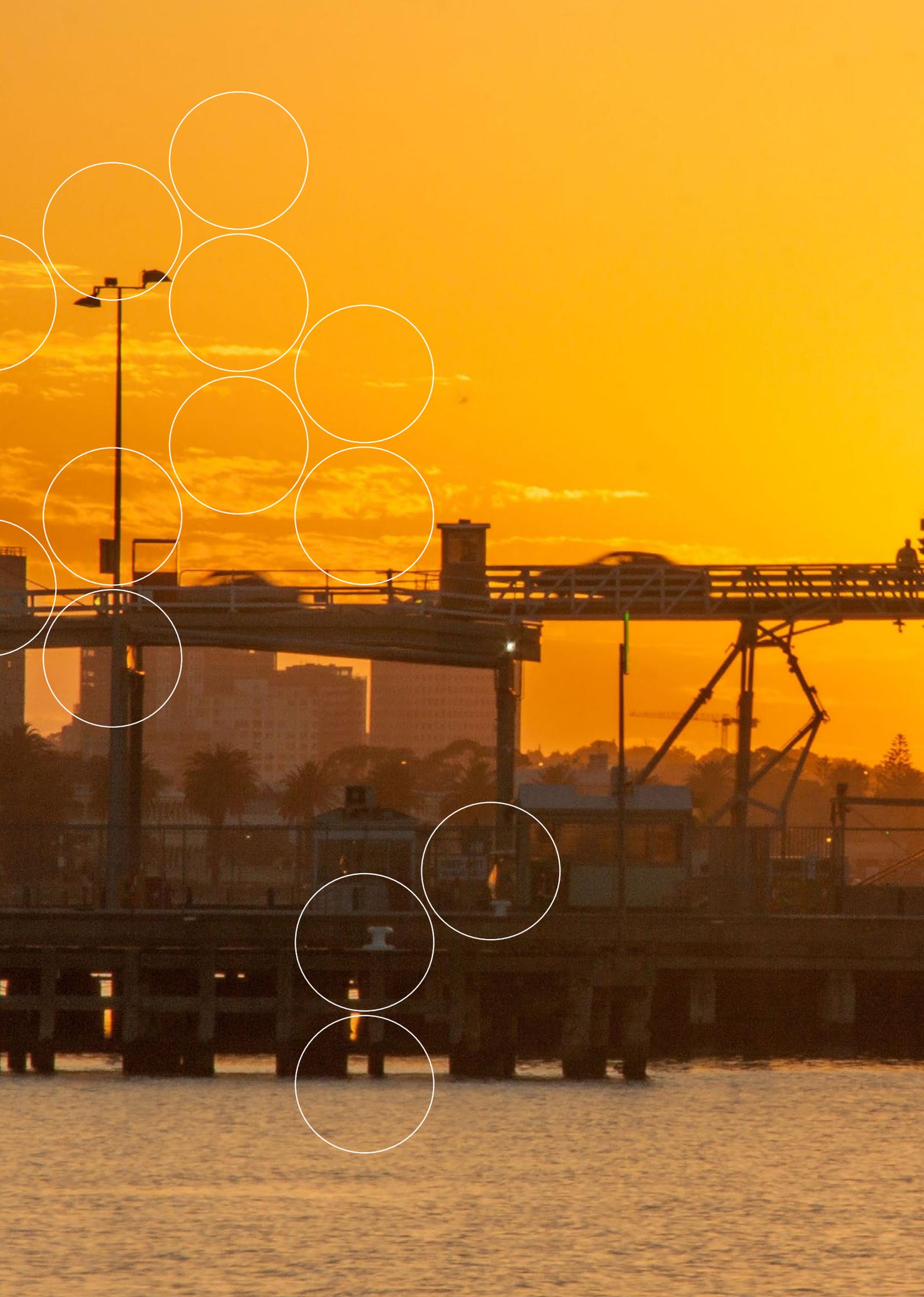
There are a few examples that go against this trend, particularly the vessels supporting the transport of goods across Bass Strait between Melbourne to Tasmania. These vessels have either already been recently upgraded or are about to be upgraded to new larger and more productive vessels. Companies operating these vessels have had the confidence to invest in expensive and long-term assets and in some cases, take advantage of tax incentives for vessel renewal introduced in 2012 as part of the 2012 shipping reform package. The key feature of this trade is that all six vessels benefit from the Government assistance program the Tasmanian Freight Equalisation Scheme and one operator (TT Line) benefits from the Bass Strait Passenger Vehicle Equalisation Scheme. Combined these industry assistance programs cost Government more than \$200 million per year.

## Taskforce analysis for the establishment of an Australian Maritime Strategic Fleet

The Taskforce focused on analysis of four key themes for the establishment of the strategic fleet. These reflect the Terms of Reference, Taskforce considerations, research, consultation and are:

- the strategic fleet itself, its composition and the regulatory environment that needs to be put in place to ensure its success;
- requisitioning, the mechanism by which the strategic fleet will be called on by Government in times of disruption or national interest;
- maritime workforce initiatives, provided to support the sustainable growth and maintenance of our maritime workforce, who will crew the strategic fleet and other major Australian vessels; and
- other complementary measures, provided to Government in support of the strategic fleet and other commitments and in line with the Taskforce's Terms of Reference.

Each of these is discussed in detail in the following chapters.





## 2. THE STRATEGIC FLEET



## 2. THE STRATEGIC FLEET

### Strategic needs

The Taskforce identified the most significant strategic freight needs in any disruption as primarily imports and the coastal trade.

This freight includes the import and coastal movement of fuel, agricultural, and industrial chemicals, and imported containerised goods. The Taskforce identified that the ability to move sufficient volumes of these cargoes by sea is vital to Australia's sovereign industry capability, its economic security and national sovereignty.

The Taskforce identified key strategic freight needs the fleet could address as:

- coastal shipping of refined petroleum from Australian refineries or import terminals to Australian end-users, including to regional and remote ports in northern Australia;
- conducting independent cargo operations (self-load/unload) where a natural disaster or other disruption affects the supply of key goods in Australia's regions or Pacific neighbours;
- enhancing capability to facilitate Defence or national mobilisation via the shipping of vehicles, equipment, and stores to northern Australia;
- the coastal shipping of containerised cargo between Australian ports to deal with smaller short-term disruptions;
- the movement of project and over-sized cargo domestically and internationally; and
- the coastal shipping of dry and non-liquid bulk cargoes that are key inputs to domestic manufacturing.

Some components of the strategic freight needs identified are of such a scale as to be unviable to be moved by a prospective Australian strategic fleet. This included the international movement of large volumes of crude oil and refined petroleum, and large volumes of imported cargo in containers. For these components, the Taskforce advised that other measures should be pursued to provide greater certainty that these trades could be sustained during significant disruption.

In addition to strategic freight needs, there are complementary non-freight strategic benefits that an Australian strategic fleet could serve, including development of the Australian maritime workforce, and supporting Australian sovereign industry.

The development of the Australian maritime workforce is discussed in **Chapter 4 – Maritime Workforce and Training**. The other measures that could complement the strategic fleet or support broader outcomes of Government are discussed in **Chapter 5 – Other Measures**.

### The Government's commitment on the Strategic Fleet and the current environment

The Government has committed to establishing an Australian-flagged and crewed fleet of up to 12 vessels that will be privately owned and operate on a commercial basis and be available for requisition in time of national need. The Government has indicated to the Taskforce that it does not wish to acquire or operate vessels itself.

The Taskforce is also conscious that its recommendations to develop Australia's maritime capability should be transparent and seek to minimise the cost impact to Government; and that recommended solutions should be viable in the long-term, financially sustainable for vessel operators, and minimise the risk of repeal by successive Governments.

The Taskforce notes that there are few large Australian-flagged and crewed vessels currently operating that could be used during potential disruptions and deliver the most significant strategic freight needs, and/or provide the complementary non-freight strategic benefits identified by the Taskforce.

The vessels that do operate are fully utilised, approaching the end of their operational lives, or specialised and largely unable to carry the key strategic freight identified.



The Taskforce has identified that a gap in operating costs between higher cost Australian-flagged and crewed vessels and lower cost foreign vessels is a significant driver of the decline in the number of Australian vessels. This cost gap is a major challenge to the development of a strategic fleet to service the identified freight and non-freight needs. Intelligence provided to the Taskforce from key stakeholders indicates that the cost gap is approximately \$AUD 5–8 million per annum depending on vessel type and crew numbers.

The Taskforce also considers that Australia's shipping taxation incentives and some regulatory arrangements are not competitive with other maritime nations, and do not encourage the re-flagging of vessels or attract long-term investment in the Australian maritime industry more broadly. The Taskforce considers that Australia's shipping taxation incentives and some regulatory arrangements, may require amendment so they facilitate this re-flagging and long-term investment. The Taskforce also considers that Government assistance will be required to motivate vessels owners/operators to re-flag and has considered both how to provide the assistance and how to pay for it.

## Examining the opportunity to establish the Strategic Fleet

In examining the opportunity to establish the strategic fleet and grow Australian shipping, the Taskforce has considered:

- the routes on which vessels could operate commercially;
- the cargo that could be moved;
- industries likely to use the fleet; and
- potential commercial partners.

The Taskforce has considered the strategic capability best suited to address the strategic needs identified, and has provided advice as to the preferred composition of the fleet below. The Taskforce has also examined the major challenges associated with establishing and maintaining the fleet, obtained stakeholder views as to these challenges, and developed options to address these to encourage shipowners to re-flag vessels and employ Australian seafarers.

These challenges include: cost; Australia's regulatory environment; conditions associated with the registration of vessels in Australia and incentives associated with registration; and seafarer training and workforce issues – such as an insufficient pipeline to develop junior Australian seafarers into the highly-skilled positions required to manage maritime logistics and port operations.

As per its Terms of Reference, as part of its assessment of the options to establish and support the fleet, the Taskforce examined the associated risks including impact on the economic viability of strategic fleet vessels and the industries that may rely upon them; potential market distortionary effects; risks to Australia's trade and treaty obligations; and potential effects on other freight transport modes.

## International models

In developing its advice, the Taskforce drew on analysis of five international models of building shipping capability prepared by consultants engaged on behalf of the Taskforce. The case studies examined are:

1. The United States' Maritime Security Program (MSP);
2. the Swiss Merchant Navy;
3. NATO Maritime Sealift Program;
4. the United Kingdom's Royal Fleet Auxiliary (RFA); and
5. Singapore's Merchant Marine.



There are several features of the models in other nations that the Taskforce believes are instructive in developing advice on an Australian strategic fleet. Those features are:

- Most are supported by legislation;
- All the models are underpinned by high-quality Flag State administration;
- Models have a compelling motivation ranging from economic/fiscal, maritime security, and sovereign capability;
- All models provide a crisis management capability that is time-responsive i.e. civilian ships can be mobilised quickly;
- Strong partnerships and cooperation arrangements between respective governments and ship owners/operators (and their agents);
- Governments provide financial incentives to maintain access to 'strategic fleet' vessels, through stipends, taxation measures, funding through defence budgets (such as the UK RFA), or a combination of measures;
- Several have requisitioning arrangements established in legislation and/or in contractual arrangements;
- All models support the employment and training of domestic seafarers;
- Models, with the exception of the UK model, all support the growth of a nationally-registered fleet and associated maritime industries; and
- Costs associated with the models are generally regarded as being lower than government ownership (with the exception of the UK model).

## Models of successful shipping registration

A key step in establishing the strategic fleet will be encouraging vessels to register (or 'flag') their vessels on the Australian shipping registers.

The Taskforce has examined the two Australian shipping registers – the Australian General Shipping Register (AGSR), and the Australian International Shipping Register (AISR) – to consider what changes may be required to make

registering vessels a more attractive proposition to vessel owners and operators. The Taskforce considers that addressing the attractiveness of the Australian shipping registers has two components; the conditions and requirements imposed by being on the Australian registers, and the shipping incentives accessible through the Australian shipping registers.

As part of its consultation with ship owners and operators, the Taskforce discussed what the challenges to vessel registration in Australia were, and what measures could be taken to make registration more attractive. This discussion included comparisons with other international shipping registration models. Several stakeholders noted that the industrial relations requirements of Australian vessel registration limited its attractiveness as an option (relative to other registries). Features of the Australian industrial relations landscape, such as the collective agreements required by the AISR, were regarded by some as an administrative burden.

For many stakeholders, the Singapore Registry of Ships (the Singapore Registry) was viewed as the global 'gold standard' of vessel registers. The Taskforce notes that registration on the Singapore Registry is the mechanism through which a range of financial incentives (in addition to streamlined vessel registration processes and crewing requirements) offered by Singapore are accessed. These incentives include corporate and income taxation incentives and assistance to facilitate maritime greenhouse gas emissions reduction and/or encourage use of low or zero-carbon marine fuels.

The Taskforce assessed the suitability of the incentives offered in Singapore and considered whether they would work in the Australian context.

The Taskforce also considers that the potential options to address cost as a challenge to vessels reflagging in Australia that are examined later in this chapter should be considered in light of whether they provide an incentive similar to what is offered by the Singapore Registry and whether they would be sufficient for vessel owners to overlook the different requirements associated with vessel registration.



While Singapore's incentives may encourage vessel registration on the Singapore Registry, the Taskforce also notes that from a shipping perspective Singapore's geographical location on the global east west maritime trade lane, with approximately 100,000 vessel arrivals per annum is a competitive advantage relative to Australia. The Taskforce also recognises that along with its natural geographical advantage, the Singapore administration's approach to providing incentives for vessel registration on the Singapore Registry, has resulted in the development of world-class maritime services, including fuel bunkering, dry-docking and maintenance, vessel survey and classification, that maritime enterprises can draw upon.

The Taskforce considers Australia's vessel registration arrangements are part of the regulatory environment that would support the strategic fleet, and supports Australian shipping more broadly. The Taskforce has discussed the changes that could be contemplated to Australia's vessel registers and has made recommendations in relation to these at later in this chapter.

## Composition of the fleet

Based on Taskforce discussions, stakeholder consultations and the research and analysis conducted, the Taskforce has determined the preferred composition of an initial strategic fleet of up to 12 vessels should include the following capabilities:

- Smaller container vessels with geared ship cranes capable of independent container operations;
- Multipurpose vessels (MPV) capable of carrying project cargo, containers and some bulk cargoes, and unload these using geared ship cranes;
- Smaller roll-on roll-off/roll-on lift-off (RO-RO/RO-LO) vessels;
- Liquid bulk vessels configured to carry multiple grades of fuel and chemical products in independent tanks;
- Dry-bulk vessels; and
- Break-bulk vessels.

This composition recognises the three prime purposes for the fleet identified by the Taskforce – to respond to disruption events, to support sovereign manufacturing industries and to support the Defence Forces. This fleet model provides for a range of specific vessel capabilities consistent with these three prime purposes. The Taskforce notes that this reflects the specialised nature of vessel capabilities. For example, a shallow-draft MPV capable of carrying containers into regional Australian and Pacific ports following a cyclone will not be effective at servicing cement trades relative to a specialised pneumatic cement carrier – and vice versa. The Taskforce also notes that it would be desirable to have multiple vessels in each category.

While noting the Government's instruction that vessels in the strategic fleet operate commercially, the Taskforce notes that some vessels in its proposed fleet composition may not be optimal for commercial deployment. The Taskforce considers that some vessel types provide a compelling strategic capability as to merit inclusion within the fleet, even though a full commercial return may not be able to be achieved.

The Taskforce heard from the fuel industry that while there may be sufficient volume on paper to support a vessel(s), the nature of the cargo movements and business operating models needed to guarantee fuel supply mean that having just a few vessels on regular routes is more likely to reduce fuel security than improve it. This likely also applies to the RO-RO/RO-LO vessels, which the Taskforce has considered in light of the Defence Strategic Review as providing a capability consistent with Australian Defence Force (ADF) sealift and sustainment requirements. The Taskforce proposes that the Government consider whether Defence can ensure those ships can be supported even if not fully commercially self-sustaining.

The Taskforce believes that when the broader measures set out in the recommendations of the Taskforce are put in place and have had time to be embedded, the number of Australian-flagged vessels will naturally grow and that this would provide a bigger pool of vessels that could potentially meet the nation's strategic freight needs.



## Commerciality and route analysis

The Taskforce considered the factors which would affect the commercial operation of strategic fleet vessels and considers that the commerciality referred to in this report is where there is an identified market.

The Taskforce drew on advice from consultants, nearly 13 years of coastal trade voyage data and industry consultations to determine the strategic fleet's composition and the trade routes that could commercially sustain those ships.

Consultants tested the commerciality of engaging Australian strategic fleet vessels on ten routes, with the routes selected predominantly consisting of coastal trades (identified through Coastal Trading Temporary Licence voyage reports); Australian external territories trades; and international trades near to Australia. The trades considered are consistent with the Taskforce's advice in relation to strategic freight needs.

Key determinants of the commercial viability of strategic fleet vessels include:

- a minimum volume of annual cargo on a vessel route/s to ensure there is sufficient ability for the vessel to generate revenue and defray costs; and
- a serviceable shipment frequency to ensure vessel idle time is minimised and vessel utilisation time is optimised.

There are some routes and trades for cargoes identified as key strategic freight needs that have sufficient cargo volumes and regularity to sustain a vessel but others would be prohibitively expensive to fully subsidise. The refined petroleum product trade was excluded from this analysis as industry advice indicated that the nature of fuel movements meant that it could not deploy a small number of vessels on a regular trade and achieve a high level of fuel security, due to the pattern and dynamic nature of fuel movements which require a high degree of flexibility.

The Taskforce notes there are foreign vessels currently deployed on the trade routes considered, (noting that some operate on a spot charter basis) indicating that these routes have commercially viable volumes. Some routes feature dedicated foreign vessels fully deployed to carry cargo on these routes, which suggests there is potentially a suitable pool from which to draw strategic fleet vessels, if provided sufficient incentives to transition to Australian-flagging and crewing.

An assessment of the strategic utility of potential vessels in the fleet was undertaken following determination of their potential commercial viability. The criteria developed to consider the strategic utility of vessels include:

- the effect on strategic sovereign industries (including minerals and metals processing, manufacture of cement and other building materials, production of fertilisers, and fuel refining);
- the versatility of vessel design to aid in response to disruption scenarios (to account for differences in port infrastructure across Australia and the Pacific for example shallow drafts or the ability to self-discharge cargo);
- and the geographic distribution of vessels around the Australian coast.

The Taskforce considers that there may be circumstances where a fleet composition with sub-optimal commercial viability is justified due to another tangible strategic benefit. This includes fuel tankers acquired with the strategic purpose of providing a sovereign capability to transport fuel for Defence uses.

The Taskforce notes that in cases where full commerciality may not be fully achieved, Government assistance measures or alternative mechanisms for commercial deployment may be required to support the continued operation of these ships (such as Government charter and/or Defence support). In such a circumstance further detailed consideration, analysis and industry consultation will be required to identify possible alternative operating models that maximise industry and Government utility while minimising the cost to Government.



## Major challenges associated with growing the Australian fleet

The Taskforce has identified several challenges which have impeded Australian shipping industry growth to date, and are likely to affect the attractiveness of vessels re-flagging in Australia as needed to establish and grow the strategic fleet.

These challenges include cost; Australia's regulatory environment; conditions associated with the registration of vessels in Australia (such as workplace relations); and seafarer training and workforce issues.

### Cost – a major challenge

A major challenge to establishing a strategic fleet is the higher operating costs associated with Australian-flagged and crewed vessels, relative to foreign vessels.

The cost gap has been confirmed by analysis conducted on behalf of the Taskforce, and by stakeholders, with ship owners and operators noting that cost was a primary consideration when investing in deploying vessels.

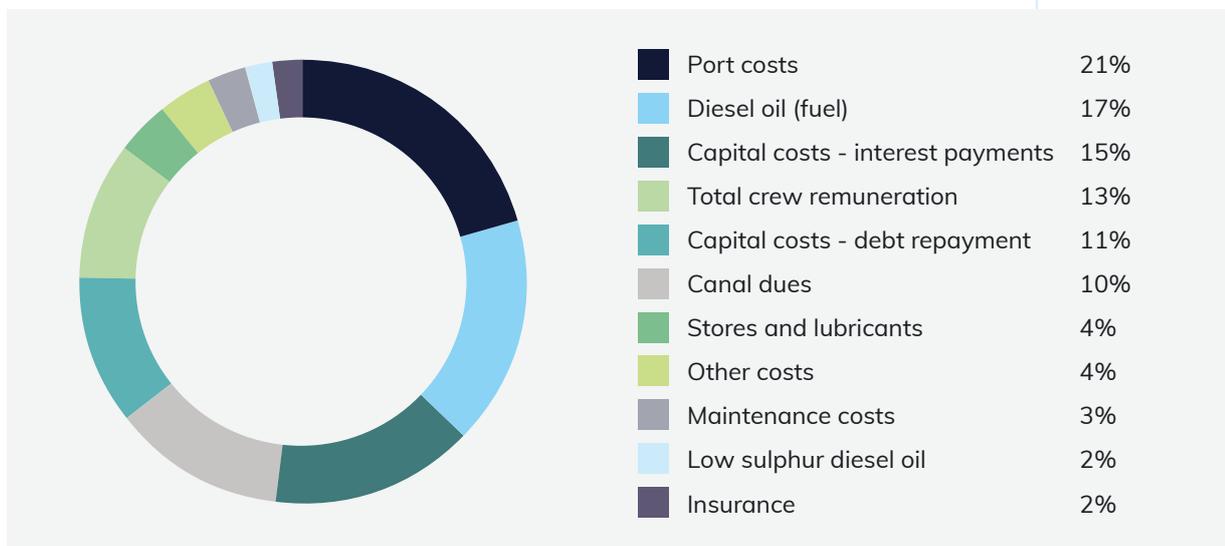
Given the nature of the shipping market, vessel operators seek to minimise operating costs to ensure freight rates are attractive to cargo owners, which in turns means financing can be maintained, and commercial returns are viable over the life of the vessel. Given their higher operating cost baseline Australian vessels operate at a competitive disadvantage – and will continue to do so unless they are able to operate in a market restricted to Australian vessels, are able to gain a productivity advantage over foreign vessels, or are subsidised in some way.

### Components of the cost-gap

Analysis found that of the identified components of cost, crewing costs, followed by fuel, and repair and maintenance were the most material drivers of the cost gap. Other costs were determined to be less material in terms of overall effect, or were costs that applied to foreign and Australian vessels equally. Figure 2.1 illustrates the fixed and variable costs associated with vessel operation and the significance of their contribution to total operating costs.

The components of the cost gap are identified in the graph below and potential options to address the cost are discussed in further detail.

Figure 2.1 – Cost components (fixed and variable) – Foreign Reference Vessel One





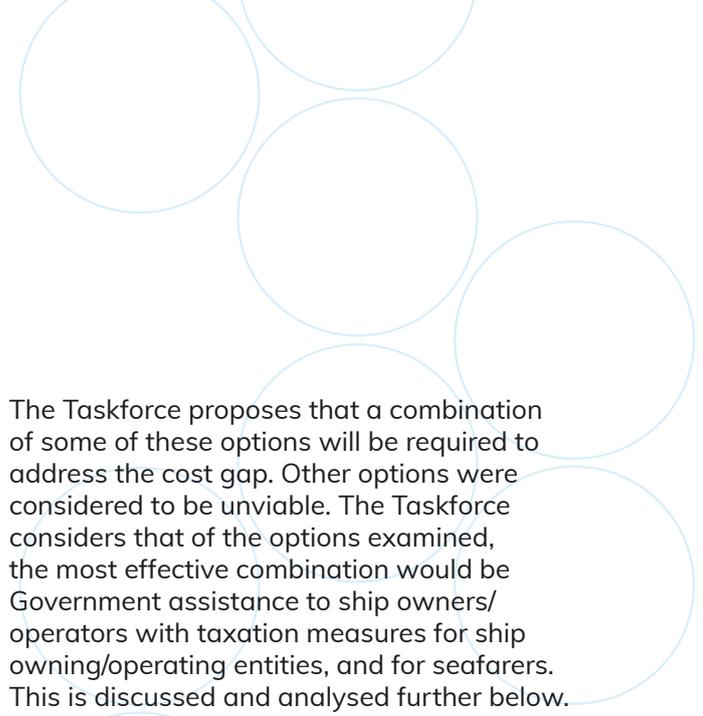
## Options considered by the Taskforce and proposed approach to close the cost gap

Australia has several measures in place that were introduced in the 2012 Shipping Reform Package to support Australian businesses in the same way as overseas shipping businesses are supported by their governments. The Taskforce recognises these as existing building blocks but that several key measures related to international competitiveness require improvement, in addition to Government support, to drive the business of ship ownership to Australia.

As the cost gap between Australian and foreign vessels has been identified as the major challenge to strategic fleet establishment, the Taskforce has developed and considered potential options to address the gap and highlighted preferred options.

The policy options considered include:

- A combination of Government assistance to ship owner/operators and taxation measures.
- Government assistance to:
  - ship owners/operators;
  - cargo owners;
- Taxation measures for:
  - ship owning/operating business entities;
  - seafarers;
- Government charter arrangement;
- Regulation change to require domestic cargo to be carried on strategic fleet vessels;
- Increased wages on foreign vessels operating under a Temporary Licence;
- Reduced fees and charges; and
- Increased maritime compliance.



The Taskforce proposes that a combination of some of these options will be required to address the cost gap. Other options were considered to be unviable. The Taskforce considers that of the options examined, the most effective combination would be Government assistance to ship owners/operators with taxation measures for ship owning/operating entities, and for seafarers. This is discussed and analysed further below.

## Process used to consider options

Consultants advising the Taskforce analysed the options to determine indicative costs when applied to potential strategic fleet operating scenarios. The Taskforce sought stakeholder input as to whether the measures presented (alone or in combination) would be effective in establishing the fleet, and whether there were measures that had not been presented that merited consideration. Stakeholder views as to the effectiveness of the options are included in the assessment of the options. The options are examined individually in further detail below.

In assessing these options, the Taskforce considered the international examples discussed above – the United States' Maritime Security Program, the United Kingdom Royal Fleet Auxiliary, the Swiss Merchant Navy, the NATO Maritime Sealift Program, and the Singapore Merchant Marine.

The Taskforce notes that while there is value in using these models to inform the development of an Australian strategic fleet, direct comparisons may be difficult to draw as some models do not operate commercially or are dedicated to military taskings. Others operate as part of national fleets (such as in Singapore and Switzerland) and may not provide the targeted strategic capability required to be consistent with the Government's strategic fleet commitment. Australia's federation, legislative framework, economic situation, and geographic position may also affect the applicability of models from other countries.



### **Recommendation 1.**

The Taskforce recommends the identified cost gap between Australian and foreign vessels be addressed through a combined measure of shipping taxation incentives in line with international norms, and Australian Government financial assistance provided to ship owners and operators.

Proposed changes to the taxation arrangements are:

- Reforming the seafarer tax offset to remove the current restrictions on seafarer eligibility so the offset applies to all Standards of Training, Certification and Watchkeeping (STCW) qualified seafarers and for any shipping activity in which those seafarers are engaged;
- Reforming the shipping corporate income tax exemption to introduce deemed franking credits in respect of dividends to shareholders, to make vessel ownership and/or operation from Australia more internationally competitive; and
- Extending application of the existing shipping tax incentives and corporate income tax exemption to qualifying vessels servicing the offshore sector.

The Taskforce considers that a Government assistance program provides the mechanism by which to bridge the cost gap and allows the Government to target capabilities consistent with the prime strategic needs identified by the Taskforce – to respond to disruption events, support sovereign industry and assist Defence.

The Taskforce further considers that it is important to the success of this program that any assistance that is provided to eligible applicants is done so with appropriate safeguards to ensure value for money is achieved and other behaviours such as price-gouging are guarded against. The Taskforce considers that this could be achieved through an open, transparent and competitive tender process.

The Taskforce notes that while Government assistance to ship owners and operators alone would be sufficient to close the cost gap, the magnitude of Government assistance required would be reduced with application of a revised seafarer tax offset and revised corporate taxation exemption which, if applied broadly to Australian vessels, will have the advantage of promoting more general investment in the Australian shipping industry. This in turn will contribute to a broader pool of Australian vessels and skilled seafarers, which Government could draw upon when required

### **Recommendation 2.**

The Taskforce recommends that the strategic fleet comprise vessels of the following types, and be of a size that will meet the three prime strategic purposes of the fleet – to respond to disruption events, support sovereign manufacturing industries and to support the Defence Forces:

- Container vessels with geared ship cranes capable of independent container operations;
- Multipurpose vessels (MPV) capable of carrying project cargo, containers and some bulk cargoes, and unload these using geared ship cranes;
- Roll-on roll-off/roll-on lift-off (RO-RO/RO-LO) vessels;
- Liquid bulk vessels configured to carry multiple grades of fuel and chemical products in independent tanks;
- Dry-bulk vessels; and
- Break-bulk vessels.



## Assessment of options to address the cost gap

### Preferred option – combination of Government assistance and taxation measures

#### The option

The Taskforce agreed that any option in isolation would be insufficient to address the cost gap, or would impose a very high cost on Government. Government assistance to ship owners and operators, and seafarer income and corporate taxation incentives as a combined measure is recommended.

#### Assessment

The Taskforce considers that Government assistance to ship owners and operators and seafarer income and corporate taxation exemptions as a combined measure would be able to address the identified cost gap between Australian and foreign vessels, and provide a framework for future growth of Australian shipping.

The Taskforce assesses that the two Government assistance options are the only options that could directly cover the entire operating cost gap, while noting the cargo owner subsidy option would be difficult to implement and with costs varying due to a range of factors.

The Taskforce also notes consultation with ship owner and operator stakeholders indicated that any options implemented to encourage Australian flagging and crewing needed to be streamlined and uncomplicated. A combination of complex measures, particularly if imposing administrative burden or financial uncertainty on ship owners and operators, may act as a disincentive.

An assessment of the individual options that make up this combined option to address the cost gap are provided in the standalone analysis of each option below.

### Government assistance to ship owners and operators

#### The option

The Government provide ship owners/operators with funding for Australian flagging and crewing, which would correct for the operating cost difference between Australian and foreign vessels.

Recipients of the assistance would be expected to operate vessels on a commercial basis, unless a defined strategic benefit for non-commercial operation were demonstrated. Recipients could not use the subsidy to undercut the price of foreign vessels.

Funding would not be available to current Australian-flagged vessels.

Where participation in the strategic fleet increases administrative burden or introduces inefficiencies, then the amount of Government assistance needed may be higher than just the operating cost difference. For example, the Government may need to provide assistance to companies to establish Australian resident subsidiaries to enable them to register vessels on the AGSR.

#### Assessment

Government assistance could be tailored to either fully or partially address this cost gap and would provide the Government with control over the types of vessels that comprise the strategic fleet.

Any assistance package would need to be structured in such a way as to provide vessel owners and operators with confidence that funding will be maintained in the long-term to enable decisions to be made about registering and crewing vessels in Australia.



The Taskforce notes that this is similar to the way the United States Maritime Security Program (MSP) has operated since its inception. Under the MSP vessel operators enter into contractual agreements through MSP Operating Agreements (valid for 10 years) with the United States Maritime Administration which outline their responsibilities to provide a U.S.-flagged and crewed vessel to the US Government upon request, meet specified safety and security standards, and provide information to ensure compliance with program requirements. In return, the participating vessel operator receives an annual stipend that partially covers the higher operating cost associated with U.S.-flagged vessels – with an annual stipend of \$USD 5.3 million per vessel, and a total program cost for the 60-vessel MSP fleet of \$USD 318 million in 2021.

Shipping economics are characterised by high upfront capital costs; ongoing costs associated with wages, fuel and maintenance; and profitability dependent on freight rates fluctuations, meaning investment decisions are long-term and can be high risk. The Taskforce notes that long-term contracts (around 10 years) for Government assistance may help ship owners and operators have confidence that commercial returns can be guaranteed.

Stakeholders noted that the effectiveness of any Government assistance is dependent on the quantum of the funding provided. Some stakeholders noted that as well as ensuring cost-competitiveness, certainty that measures would be retained would be required before boards considered investment in Australian shipping operations.

The Taskforce notes there are risks associated with this option, including that costs escalate; that Government will have a long-term financial obligation to prevent vessel owners transitioning vessels back to foreign flagging and crewing; and the risk to some Australian onshore industries if they become reliant on vessels that then leave the coast.

## Government assistance to cargo owners

### The option

The Government provide Australian cargo owners with funding as an incentive to use Australian-flagged vessels to carry their cargo. The assistance would close the gap on the freight rate offered for the shipment of cargo by equalising the cost between an Australian-flagged vessel and a foreign-flagged vessel. The Tasmanian Freight Equalisation Scheme (TFES) is an example of a cargo owner subsidy that could be used as a conceptual model.

### Assessment

A subsidy for cargo owners would allow for vessel operators to effectively offer a freight rate to cargo owners and shippers equivalent to that offered by international vessels, with measures taken to ensure freight rates could not be used to undercut the price of shipping on a foreign-flagged vessel and raise concerns with meeting our international obligations.

The Taskforce notes that cargo owner assistance is likely to be complex to administer, given the high volume of potential claims, the need to monitor freight rates across a range of vessels, and the need to minimise potential financial burden on cargo owners due to delays in reimbursements. It is also likely to be higher cost to the Government compared to vessel owner subsidy which would be fixed to operating costs. Cargo owner assistance may also be a high-risk option given the potential risk of disrupting shipping arrangements, should the volumes of cargo be unable to support vessel operations and vessels be withdrawn.



## Corporate taxation measures

### The option

Corporate tax settings be amended to remove taxation at the point of distribution for profits for owners of companies providing strategic fleet vessels. This means reforming the current shipping corporate income tax exemption to introduce deemed franking credits in respect of dividends to shareholders.

The Taskforce suggests extending application of the existing shipping tax incentives and this corporate income tax exemption to qualifying vessels servicing the offshore sector.

### Assessment

The Taskforce notes that the effectiveness of this option is difficult to assess given the limited information available and the effect that individual company circumstances have on tax paid, but considers that a corporate tax exemption alone would be insufficient to make Australian vessel operation cost-competitive. However, providing additional corporate taxation incentives to vessel owners and operators to increase the attractiveness of registering vessels in Australia would have a dual benefit of reducing the cost gap and help strengthen the Australian maritime industry by increasing the number of Australian-flagged vessels beyond the strategic fleet.

## Seafarer taxation measures

### The option

All income earned by Australian seafarers on strategic fleet vessels be exempt from income taxation, whether overseas or in Australia and that the vessel operator would retain the difference while providing seafarers with their current net pay.

The Taskforce suggests reforming the seafarer tax offset to remove the current restrictions on seafarer eligibility so the offset applies to all STCW qualified seafarers and for any shipping activity in which those seafarers are engaged.

### Assessment

Exempting seafarers from income tax provides a reduction in annual crewing costs for Australian vessel operators. However, by itself an income taxation exemption is unlikely to be sufficient to make Australian vessel operation cost-competitive. An income tax exemption for seafarers would not provide a financial benefit to seafarers, as they would receive the same net pay under both scenarios.

The Taskforce also understands that an income taxation exemption may cause seafarers to lose access to some tax deductions incurred in the course of earning their income – which may result in Australian seafarers being financially worse off than if no exemption were introduced. Seafarers may be cautious about a reduced gross income, particularly if they see a risk of the incentive being removed.

## Government charter arrangement

### The option

The Government charter a vessel from a vessel owner, use the vessel for specific Government cargo tasks, and then offer the vessel to a third-party vessel operator (through a competitive process) to operate commercially for the period of the charter where it wasn't being used by Government and recover costs to Government associated with the charter.

The vessel would be available for dedicated freight tasks and/or to access capability in specific scenarios – such as to respond to supply chain disruptions.

The vessel operator may be contractually obliged to meet certain conditions consistent with the Government's strategic fleet commitment – including engaging an Australian crew for the period of the charter, only engaging in Australian or near-region trades, and being required to be redeployed in the event the Government requires the vessel.



## Assessment

The Taskforce considers that Government charter may be an effective option where there is a clear cargo in mind and control of the vessel's operation is preferred, but a long-term or complex measure is not desirable.

Chartering arrangements could provide Government with the ability to address strategic needs – both freight and non-freight, and could provide the capability to address some potential disruptions. However, the Taskforce ultimately considered this option to be inconsistent with the Government's core expectation that vessels operate commercially and only be used for Government purposes during defined times of need.

## Regulation change – requiring cargo to be carried on strategic fleet vessels

### The option

Amend the Coastal Trading Act to require cargo owners involved in specified shipping trades or moving specified cargo types to use strategic fleet vessels for movement of all or a proportion of their domestic trade.

### Assessment

Stakeholders indicated little support for changes to the Coastal Trading Act to require use of Australian vessels for certain trades, or to restrict use of foreign vessels as they attributed the structural issues in the global shipping market – such as the cost gap between Australian and foreign seafarers – to be the fundamental driver of the decline of the Australian fleet, rather than inadequacies within the cabotage regime.

Stakeholders also raised serious concerns about the risk that forcing domestic cargo onto Australian vessels would increase the cost of shipping services. Many onshore industries rely on coastal shipping – such as steel, cement, alumina/aluminium, and fuel

refineries. These may be subject to a number of competitive pressures, for example higher baseline costs due to requirements to reduce greenhouse gas emissions<sup>5</sup>.

Business viability could be further affected by any potential changes to shipping arrangements, particularly for trade-exposed businesses, if higher costs render them incapable of competing with direct imports leading to import substitution. This would have a negative impact on sovereign manufacturing capability and reduce coastal cargo volumes.

The Taskforce notes that this option may not be sufficient to drive re-flagging. However, if trades were reserved under the Coastal Trading Act for the use of strategic fleet vessels that were considered strategic and used vessels with strategic capability, it may give some certainty of the types of vessels that may re-flag.

## Increased wages on foreign vessels operating under Temporary Licence

### The option

Increase the wages paid to crew on foreign-flagged vessels while on voyages operating on a Temporary Licence to match Australian wages, therefore making the Australian vessel more cost-competitive relative to foreign-flagged vessels operating coastal trades.

### Assessment

Taskforce consultation indicated limited support for changes that would increase costs associated with coastal trading, even for a limited range of routes that could be operated by potential strategic fleet vessels. Stakeholders also indicated that the current wage system provided by Schedule A was administratively complicated, and any additional or different requirements would be an administrative burden.

5 Clean Energy Regulator, The Safeguard Mechanism, available at <https://www.cleanenergyregulator.gov.au/NGER/The-safeguard-mechanism>



While this option may partially close the cost gap, it does not guarantee re-flagging nor does it provide certainty on what vessels would re-flag and whether they would provide capability to meet strategic need.

## Reducing fees and charges

### The option

Implement priority berth access to loading/unloading and a reduction of fees for Australian vessels over foreign vessels, including those levied by port operators for services including pilotage, towage, and wharf access, as well as those fees levied by the Government, such as the Australian Maritime Safety Authority levies.

### Assessment

This option would contribute to reduced operating costs for vessels, however, is unlikely to encourage re-flagging and would not provide certainty on the type of vessels that did re-flag.

Outside of AMSA levies, the Government has little control over the fees charged on vessels by port operators, or ability to mandate that Australian vessels be prioritised to access berths over foreign vessels. Most Australian ports are privatised, leased by state and territory governments on a long-term basis to private operators (typically private equity and superannuation funds), who are compelled to deliver financial return to investors.

Even if possible, a total exemption from port fees and charges would not be sufficient by itself to close the cost gap, and would need to be combined with other measures.

AMSA, port operators and state government agencies would need to be funded to provide services or implement regulatory functions if the funds received through the fees and charges by cost recovery arrangements were removed. This would be another cost to the Government.

## Increasing maritime compliance

### The option

Increase funding for the Fair Work Ombudsman (FWO) and the Australian Maritime Safety Authority (AMSA), to conduct additional compliance activity for vessels operating under Temporary Licences. Stronger administrative oversight could provide better information on, and compliance with, Schedule A wages paid on foreign vessels operating under Temporary Licence.

### Assessment

Increasing compliance activity may detect additional non-compliance and inform Government about non-compliance rates but increasing compliance activity itself may not fully reduce the cost gap, nor provide sufficient incentive for foreign vessel owners and operators to choose to register and crew vessels in Australia.

Additional compliance activity may provide a perverse incentive for foreign vessel operators to reduce the number of vessels performing three or more voyages in a 12-month period (and thus payment of the additional Schedule A wages to foreign seafarers) to avoid negative compliance rulings.



## How to fund the options

The Taskforce considered the different sources of revenue the Government could use to fund options for establishing the strategic fleet and options for training and development of the maritime workforce. These methods were:

- Funding through the existing Budget processes;
- Taxation measures to generate new revenue to support the fleet;
- Levies on foreign vessels and/or users of STCW-qualified seafarers (who do not currently contribute to training costs); and
- Using established Government funds.

The Taskforce considers there is an argument to establish a specific purpose revenue stream to fund the strategic fleet. Levies were considered a viable way to provide this specific purpose revenue stream both to meet the cost gap to support strategic fleet vessels, and for training and development. A training levy is discussed further in **Chapter 4 – Maritime Workforce and Training**.

For example, AMSA charges a levy for safety and pollution response, noting that the levy is applied to all arrivals but that the safety benefits also apply equally.

A levy could be placed on vessel arrivals at Australian ports to fund the Government assistance paid to vessel owners/operators to re-flag. Such a levy would need to be carefully calibrated in order to ensure perverse incentives are not created, and the impacts are spread equitably across ship owners/operators and cargo owners. The Taskforce notes that a flat annual fee would impose a greater cost (on a unit of cargo basis) on the operators of smaller vessels – and particularly on bulk carriers – which are more likely to be carrying cargoes with lower value per tonne.

Additional research needs to be conducted on the legislative and legal basis for the levy, as well as impact analysis on users of shipping if the cost is directly passed on. Analysis is also required to ensure that any levy does not have an adverse impact on any of Australia's international obligations, particularly those relating to trade.

### Recommendation 3.

The Taskforce recommends that the Government establish a levy on vessel arrivals as a mechanism to fund the strategic fleet. The levy should:

- Be modelled on the existing AMSA levies, calculated on a net tonnage basis for each ship arrival; and
- Accumulate and maintain sufficient funding to:
  - Make payment to strategic fleet ships owners/operators that matches the ship operational cost gap; and
  - To help defray the cost of registering a strategic fleet ship on the Australian General Shipping Register.



## Regulation to support the strategic fleet

The Taskforce has considered the regulatory frameworks currently in place to support Australian shipping to assess whether these are fit for purpose to support establishment of a strategic fleet. The Taskforce has analysed maritime taxation incentives and provided recommendations in relation to amended incentives above.

The Taskforce considers that the regulatory frameworks that require adjustment include: vessel registration; coastal trading; and the framework provided by the *Fair Work Act 2009* relating to the payment of wages to foreign seafarers working in Australian coastal trades.

### Vessel registration

The Taskforce has considered the role of the Australian General Shipping Register (AGSR) in supporting the strategic fleet. The Taskforce believes that all strategic fleet vessels must be registered on the AGSR.

As discussed above, the Singapore Registry is considered an exemplar for other support needed to encourage re-flagging. The comparison has shown some facets of the Singapore Registry that could be added to the AGSR, and some that would not be supported in the Australian context.

### Changes that could be considered

The Taskforce has identified a number of changes to the AGSR that would align it with successful vessel registers in place internationally, including vessel eligibility requirements (such as size, vessel age and type (trading or non-trading), less strict citizenship requirements for ownership (retaining a requirement for companies owning vessels to be Australian but opening more opportunity for foreign investment in companies that own and operate vessels), and increasing the types of vessels eligible).

The Taskforce also notes that the AGSR would need to allow transitional foreign crewing arrangements for vessels on the AGSR, to fill identified skills gaps, subject to a Memorandum of Understanding with the appropriate employee's representative organisation in the crew's country of origin.

### Changes that would not be supported

The Taskforce notes there are other areas where international vessel registers offer advantages over the AGSR that are unlikely to be acceptable in an Australian context or serve the broader purpose, including the development of Australian maritime skills. These include less strict requirements on the citizenship of persons or businesses that own ships on registers, than is the case for the Australian registers.

A wider range of vessels can be registered on some vessel registers than on the AGSR or the AISR. For example, vessels on the Singapore Register of Ships can employ officers and crew of any nationality, while the AGSR requires Australian crew.

The Taskforce notes that some of the conditions available through the Singapore Registry (and indeed, other highly-subscribed vessel registers internationally) are not consistent with the Government's commitment – such as no restrictions on the nationality of crew; nor the broader expectations in the Australian community relating to remuneration, and workplace conditions and collective bargaining.

### Bridging the register gap

The Taskforce notes stakeholder feedback that industrial relations is a factor in the attractiveness of vessel registration. The Taskforce also notes that significant changes to the Australian industrial relations framework to enable alignment with vessel registers in other nations are neither feasible, nor likely, and are not consistent with community expectations.



The Taskforce notes that there may be value in investigating whether tripartite agreements between employers, maritime unions, and Government – such as were used to great success for Australia’s LNG vessels operating from the North West Shelf (the NWS Continuity of Operations Agreement) – can reduce administrative costs, provide commercial benefits for business, and provide long-term certainty to workers and vessel owners and operators alike.

## Australian International Shipping Register

The Taskforce did not support the strategic fleet vessels being registered on the AISR. However, the Taskforce considers there may be merit in reviewing the provisions of the AISR to identify if they can be made more attractive to encourage the registration of vessels under this Australian register. The Taskforce considered that while not providing the quantum of benefits of registration under the AGSR, there were benefits from increasing the general pool of vessels operating in Australia with at least a proportion of Australian crew.

### Recommendation 4.

The Taskforce recommends that strategic fleet vessels must be registered on the Australian General Shipping Register (AGSR).

The Taskforce also recommends the Government amend the AGSR to:

- make vessel registration more streamlined; and
- make it closer to those practices in place in competitive flag-state jurisdictions.

### Recommendation 5.

The Taskforce considers there is merit in reviewing the provisions of the Australian International Shipping Register (AISR) to identify if they can be made more attractive to encourage the registration of vessels under this Australian register.

## Coastal trading

As examined in the section of this report discussing the likely composition of the fleet, the Taskforce notes that many strategic fleet vessels are likely to be deployed on Australian coastal trades, either on a fully-dedicated basis – such as high-volume, high-frequency dry bulk trades – or on a partial basis as part of a near-region international trade.

This means that a number of strategic fleet vessels are likely to operate under the Coastal Trading Act licencing regime, and will need to obtain a General Licence under the Act.

The Taskforce notes the evidence provided in this report noting that the cabotage arrangements provided by the Coastal Trading Act do not provide a mechanism for Australian vessels to get preferential access to the carriage of domestic cargoes. When combined with the lower cost structure of foreign vessels, this meant in many instances cargo owners opted to use lower-cost foreign vessels, leading to a decline in the Australian coastal trading fleet.



The Taskforce considers that there are matters relating to the interaction of the strategic fleet with the Act that will need to be reviewed to ensure those strategic fleet vessels that do operate on coastal trades are able to do so in the long-term. The Taskforce noted that it was important that this review occur after the implementation arrangements for the strategic fleet have been determined to enable

the specifics of the Act to be evaluated in terms of how the Act supports deployment of the vessels.

The Taskforce considers that these matters be further clarified by a review of the Act to ensure Australia's cabotage arrangements are fit-for-purpose to support the strategic fleet once it is operational.

### **Recommendation 6.**

The Taskforce recommends that the Government should review the *Coastal Trading (Revitalising Australian Shipping) Act 2012* to ensure the object and the provisions of the Act support the implementation of the strategic fleet. The review should occur after the design of the assistance and taxation measures have been completed so that specific legislative provisions reflect implementation arrangements for the strategic fleet.

The Taskforce considers that the following should be key considerations of the review:

- that a strategic fleet ship be defined;
- ensure that cargo volumes and trade (including strategic fleet cargo/trade) on General Licence vessels are not undermined by the awarding of Temporary Licences;
- a General Licence holder (including a General Licence owner/operator of a strategic fleet ship) be given the first right of refusal to arrange for a Temporary Licence ship/s to carry cargo in the trade of the General Licence ship/s cargo in excess of that able to be transported by its General Licence ship/s;
- If the General Licence ship owner/operator does not exercise that right, the owner, charterer, master or agent of a vessel, or a shipper (as defined in the Coastal Trading Act) have the opportunity to apply for a Temporary Licence to carry that cargo/ trade; and
- that the s33 Comments by third parties provision in the Coastal Trading Act be strengthened to provide for monitoring, reviewing and scrutinising the awarding of Temporary Licenses in accordance with the principles outlined above.

The proposal for the review reflects stakeholder concerns that the implementation of the current Act has not achieved its purpose, and that strategic fleet cargo volumes and trade could be undermined by the current approach to awarding of Temporary Licences.

The Taskforce recognises the dual benefits of an efficient and robust cabotage regime in supporting Australia's sovereign maritime capability, sovereign manufacturing industries and domestic trade. Addressing the cost gap between Australian and foreign ships and ensuring a robust regulatory environment that preserves domestic cargo for Australian ships (including strategic fleet ships) are critical policy elements that must work together to realise these benefits.



## Fair Work Act

The regulatory regime established by the *Fair Work Act 2009* (FWA) includes the payment of wages under a Modern Award, and the Fair Work Ombudsman undertakes activities to ensure compliance with the requirements of the FWA and Award. For the maritime industry, the relevant Award is the *Seagoing Industry Award 2020* (SIA).

Schedule A of the SIA applies to foreign vessels conducting coastal trade under Temporary Licence from the third voyage onwards in any 12-month period, and provides additional wages to foreign seafarers. The additional wages are higher than international minimums, but are lower than the minimum SIA wages provided to Australian seafarers and the wages provided to Australian seafarers under Enterprise Bargaining Agreements.

The FWA does not apply to foreign vessels where they are exercising the right of innocent passage or transit passage through Australian waters.

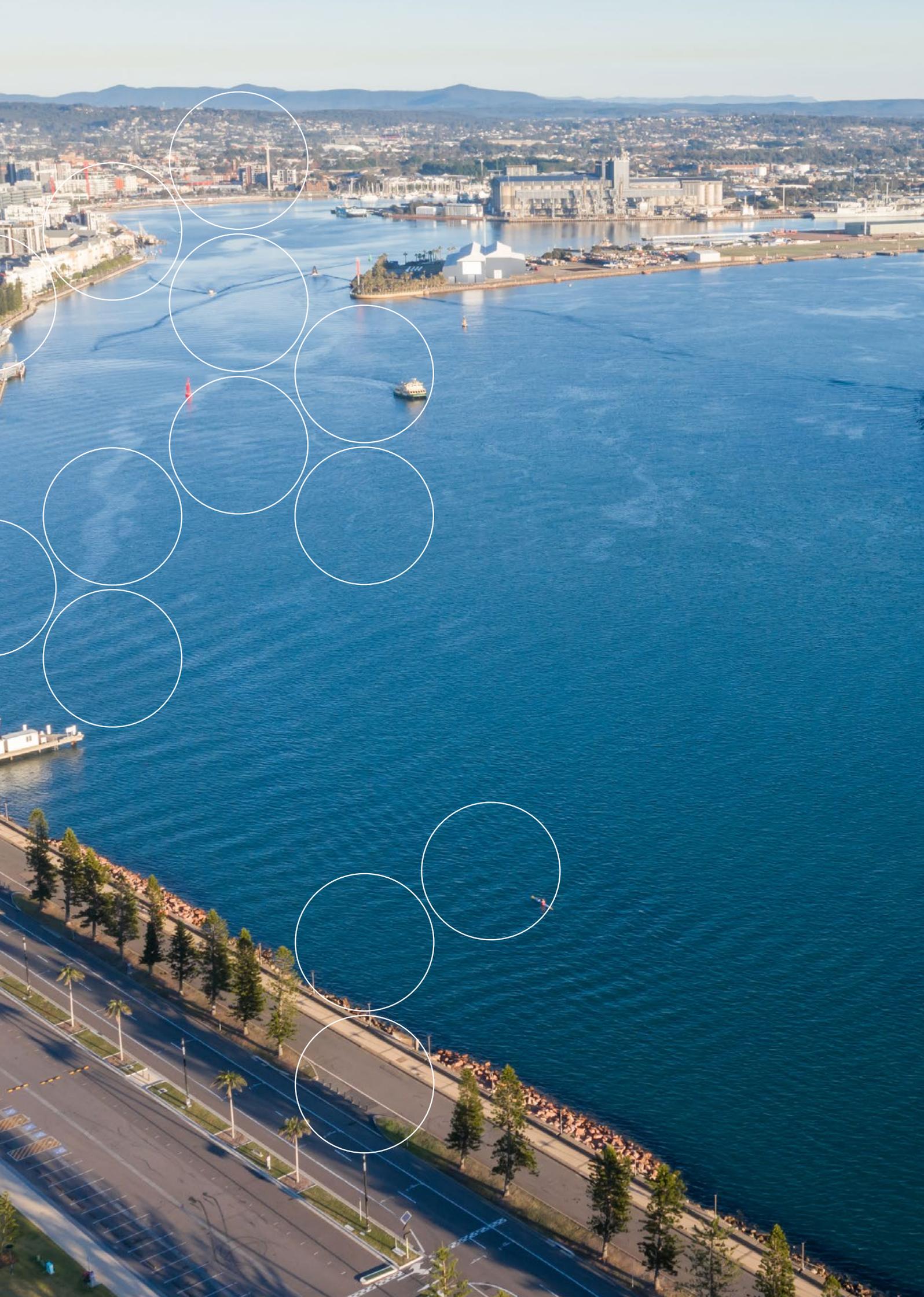
As part of consideration of options to address the cost gap between foreign and Australian vessels, the Taskforce considered two options related to the FWA. The first option is to increase wages on Temporary Licence vessels, and the second option is to increase compliance activity conducted by the Fair Work Ombudsman. The Taskforce has not recommended the first option. However, the Taskforce has recommended that Government fund the Fair Work Ombudsman to increase compliance activities relating to the payment of wages on foreign vessels engaged in coastal trading.

### Recommendation 7.

The Taskforce recommends that Government provide additional funding to the Fair Work Ombudsman to increase compliance activities relating to the payment of Schedule A Wages on foreign vessels operating under Temporary Licence.

The Taskforce notes there is limited information available regarding the compliance of foreign vessels engaged in coastal trading under a Temporary Licence with the requirement to pay additional Schedule A wages from the third voyage onwards in any 12-month period.

Stronger administrative oversight will provide information to Government to better understand the extent of non-compliance and enable decisions to be made regarding what measures are required to increase compliance.





# 3. REQUISITIONING ARRANGEMENTS





## 3. REQUISITIONING ARRANGEMENTS

The Government's strategic fleet commitment includes an expectation that vessels in the fleet will be available for requisition by the Government in times of national crisis such as natural disaster or conflict. The Terms of Reference specifically provide that the Taskforce must consider the regulatory arrangements needed to enable the Government to requisition and redeploy vessels.

The Government does not currently have powers to requisition Australian vessels in times of need, beyond powers available under the *Defence Act 1903* (*Defence Act*) that are only enlivened during declared times of war.

There are circumstances when the use of ships is necessary to respond to disruptions, disasters or other crises. Previously, foreign-flagged vessels have provided the maritime disaster response capability Australia has required. For example, during the 2019–20 bushfires, under the direction of the vessel charterer and Bass Strait offshore platform operator, Esso, the Norway-flagged, Australian crewed offshore supply vessel *Far Saracen* was one of the first vessels to arrive in Mallacoota and provide aid to the local community. However, where there is no connection to Australia beyond cargo carried and port call, total reliance on foreign-flagged vessels leaves Australia vulnerable with few options to direct or request vessels to assist during natural disasters, critical supply chain disruptions or other situations of need.

In the Government's response to the *Defence Strategic Review*, it is clear that establishing the strategic fleet will work in concert with that review's recommendations. Specifically, having a strategic fleet available to be requisitioned will contribute to a fully integrated Australian Defence Force maritime domain and enable the Government to access maritime capability to provide domestic and international aid to the civil community so that Defence is only called upon as a force of last resort.

In developing its advice to Government, the Taskforce has considered the current requisitioning frameworks in place across domestic and international jurisdictions which include a variety of contractual, legislative and government-owned and operated models. The Taskforce has also provided advice on scenarios where the Government may want to requisition commercial maritime vessels to assist with further development of requisitioning policy.

### Existing Commonwealth powers to requisition vessels

The Commonwealth currently has power to requisition vessels in times of war or conflict, set out in the *Defence Act 1903*. The Commonwealth also has a limited power to require the movement of liquid fuel cargoes, contained within the *Liquid Fuel Emergency Act 1984*.

### The Defence Act

Section 67 of the *Defence Act* provides the Government with a power to requisition a vessel in times of conflict or war. Given the power's application is limited to conflict scenarios, it is unlikely this power would provide sufficient legislative power to enable the Government to requisition vessels in response to crises such as natural disasters or supply chain disruptions.



The Defence Act power is also limited in its scope, as it only provides for the Government to compel owners to provide (and ‘furnish’) vessels, but not crew. As such, should the Defence Act power ever be activated, existing crew members would likely need to be re-contracted, vetted and brought under military discipline, or, should the existing crew members not wish to remain on the vessel, the entire crew may need to be replaced.

It is also likely ADF personnel would have to be deployed to direct the vessel in a command or support capacity, or alternatively to crew it, should civilian crew be unavailable or unwilling to crew a vessel being directed to operate in a heightened risk scenario (noting that most Defence personnel are not trained to operate civilian commercial vessels).

The Government has committed to reforming Defence legislation, to ensure Defence is able to meet the challenges of Australia’s changing strategic environment, and the realities of modern competition and armed conflict. The Taskforce’s recommendations regarding requisitioning powers have been developed with this in mind given that Defence’s work to develop policy options for the modernisation of the Defence Act 1903 is happening at the same time as this report is developed.

## Liquid Fuel Emergency Act

The *Liquid Fuel Emergency Act 1984* (LFE Act) gives the Government a range of powers to prepare for and manage a national liquid fuel emergency. Powers under the LFE Act include planning powers and emergency powers. Planning powers can be invoked prior to the declaration of a liquid fuel emergency in preparation for an emergency response where fuel suppliers are required to stockpile fuel, develop emergency procedures and provide data. Emergency powers can only be used following declaration of a liquid fuel emergency

and enable the Government to control stockpiling and movement of fuels, supply to bulk and retail customers, and management of refinery operations.

The LFE Act powers are limited in their scope as they only provide the Government with powers to respond to a specific set of circumstances for a defined group of liquid fuels. The LFE Act does not provide the Government with powers to requisition or compel vessels (or other transport modes) to aid response efforts. If a fuel supplier is directed to move fuel to a specific location it is up to the fuel supplier to arrange transportation – a requisitioning power for ships would add to the Government’s tools in managing fuel suppliers, particularly in an event where a fuel supplier is unable to access a ship.

## State and Territory requisitioning models

Under Australia’s federal model, states and territories are primarily responsible for responding to emergencies within their respective jurisdictions.

In times of crisis, the Taskforce understands that hardware is primarily operated on a charter or lease basis by state emergency authorities. This has been the case with water-bombing aircraft leased from the US, and this arrangement had historically been convenient (as bushfire seasons typically do not overlap)<sup>6</sup>. After the Black Summer Bushfires of 2019–20, private contractors and engineers were rapidly procured to assemble and mobilise large fleets of machinery to clear debris to address the complexity and scale of cleaning up hazardous material in the aftermath.<sup>7</sup>

Should the Government choose to implement the recommendations in this chapter, it may wish to examine some of state and territory arrangements in greater detail to draw on learnings and experiences.

6 ‘We need our own Elvis’: Former fire chiefs warn Australia is unprepared for bushfire peril’, SMH – 12 March 2019

7 ‘Cobargo to begin recovery months after ‘Black Summer’ as National Bushfire Recovery Fund spending plan is revealed’, ABC News Online, 11 May 2020



## International requisitioning models

The Taskforce has considered the current requisitioning frameworks in place in the US, NATO, UK and Singapore.

### United States requisitioning model

The US Emergency Acquisition of vessels legislation provides the Government power to requisition US-flagged vessels in times of need, and some power to requisition foreign-flagged vessels. The US also has a number of established programs and requisitioning arrangements to secure merchant vessel capability. These include:

- **Maritime Security Program (MSP)** – a contractual model of requisitioning, based on 10-year contracts with private operators of US-flagged and crewed vessels operated internationally, supported by a monthly stipend.
- **Voluntary Intermodal Sealift Agreements (VISA)** – a program whereby operators of US-flagged and crewed vessels can voluntarily agree to provide sealift capacity when needed, with compensation paid when a vessel is requisitioned, but with no ongoing cost to Government.
- **National Defense Reserve Fleet (NDRF)** – a fleet of US-Government owned vessels kept in varying states of readiness, with a skeleton crew onboard. The program has high ongoing costs for crewing, maintenance, repairs and scrapping/ replacement.
- **Ready Reserve Force (RRF)** – a subset of the NDRF, kept in a greater state of readiness, but with similar ongoing costs.

### NATO Strategic Sealift

NATO's Maritime Sealift Program provides a requisitioning mechanism for member nations to share their strategic assets to ensure sealift capacity is available to support military operations. The program is coordinated by NATO's Movement Coordination Centre Europe (MCCE). The MCCE is supported by the Maritime Sealift Steering Committee (MSSC) and commercial shipping companies are closely involved as excess shipping capacity is provided through chartering arrangements.

The MSSC does not have a permanent standing fleet, rather all resources are supplied by member countries and employed by MSSC within the parameters of the NATO Agreement – where member nations may be called upon to provide suitable vessels to respond to a crisis.

### Singapore Merchant Marine

Singapore's *Requisition of Resources Act 1985* (Requisition of Resources Act) enables all vessels registered under the Singapore flag, including those on the Singapore Registry, to be requisitioned if it is deemed necessary for the defence or safety of Singapore. The Singaporean legislative requisitioning power is similar to the US legislative power in that on its own it does not ensure the Singaporean Government has access to marine capability. Rather, the efficacy of the legislation is likely to come from having a large number of vessels and vessel types on the Singaporean Register.

### United Kingdom Royal Fleet Auxiliary

The Royal Fleet Auxiliary (RFA) differs from the other international models as it is a merchant navy fleet owned and operated by the UK Government for the purpose of supplying the Royal Navy and aiding in military and humanitarian operations. As the RFA is a dedicated supply chain resource owned by the UK Government and crewed with British merchant sailors, there is no need to requisition vessels in this fleet. Vessels remain constantly available to the Royal Navy under the direction of the UK Ministry of Defence.



## Applicability of international models in the Australian context

The Taskforce considers that a number of elements arising from the international models may be applicable in the Australian context. For example, the US MSP and VISA, and NATO program demonstrate that a contractual model of requisitioning can reduce costs when compared with government-owned models (such as the US NDRF, RRF and UK RFA). Similarly, the US and Singaporean legislative powers to requisition any vessels on their respective shipping registers provides certainty regarding access to additional capacity, when needed.

However, the Taskforce notes that the utility of the US and Singaporean legislative powers is dependent on the strength of the shipping registers. There are strategic fleet subsidies in the US, and taxation, crewing and other incentives in Singapore, to attract vessels to their respective registers. Smaller shipping registries (such as the current Australian register) would not provide the same certainty of access to capability without significant growth in the register.

The Taskforce was advised that Australia has already taken some steps to coordinate with international 'strategic fleet' arrangements. Australia became a member of NATO's MCCE in June 2023, making it the only southern hemisphere nation admitted to membership. Australia became the 29th member nation in the 7th expansion of the original concept. In joining MCCE, Australia will benefit from the partnership with other MCCE member countries, access to shared information flows, with possible access to NATO commercial sea lift ships if ever required but equally, Australia could be called upon to provide access to its strategic fleet once established.

## Scenarios where the Government may want to requisition vessels

The Terms of Reference anticipate that the strategic fleet will be available to be requisitioned by the Government in times of national need, whether that be natural disaster or times of conflict. While the mandate is clear, intelligence gathered through research and consultation with stakeholders has illustrated that there could be value in broadening the set of circumstances in which the Government would want to requisition vessels, but which would not necessarily meet the threshold of national need. To reach this view, the Taskforce developed a series of scenarios and determined that some would be unlikely to meet the threshold of national need but consequences could nonetheless be significant for critical matters related to foreign and domestic policies.

### Scenarios where the Government may want to requisition vessels that are unlikely to meet a 'national need' test:

- Supporting Defence needs during conflict, preparing when tension is increasing or for military exercises;
- Addressing significant international and domestic supply chain disruptions;
- Providing international aid to regional neighbours;
- Supplying disaster relief cargoes to affected regions (e.g. flooding in the Kimberley WA in late 2022 and early 2023); and
- Providing emergency capability to supply key inputs for sovereign manufacturing.



## Cost impacts of requisitioning

The full extent of the cost to Government of requisitioning vessels cannot be determined at this point in time. However, some of the costs that may need to be met by the Government include timecharter (which includes crew) if a replacement vessel is required to meet vessel operators' commercial obligations, fuel, port costs, cargo-handling (stevedoring, wharfage etc.) and compensation to cargo owners adversely affected by a requisitioned vessel.

## Measures to provide capability for Government requisition

There are two measures that would provide the Government with the capacity to requisition Australian-flagged vessels. The Government could legislate the power to requisition and it could also obtain the capability to requisition through contractual arrangements.

The Taskforce considers that a mixed option that incorporates both legislative powers as well as contractual arrangements will be the most effective approach in providing certainty of access to capability for the Government and to vessel operators around the terms of the requisition.

Contracting could be relied upon in circumstances where there is mutual agreement and enable the use of vessels in more situations of need, but be supported by legislative compulsion where it is appropriate or preferred by the Government or vessel owner. Noting the limited powers the Government has to requisition vessels currently, it is likely that a new piece of legislation would be required.

A detailed assessment of the both the contractual and legislative measure is below.

## Assessment of options

### Requisitioning through contractual arrangement

#### The option

The Government obtains the capacity to requisition vessels through a contractual arrangement with vessel owners/operators to gain access to vessels, including strategic fleet vessels. Entering such a contract and agreeing to terms for requisitioning should be a condition of access to any industry assistance measures put in place by the Government.

While it would be expected that contractual arrangements between the Government and strategic fleet vessel operators would necessarily include terms for requisitioning arrangements, a program where non-strategic fleet vessel operators are offered an incentive to volunteer their vessels for requisition by the Government (similar to that of the VISA program in the US) would provide the Government with greater access to maritime capability beyond the strategic fleet.

#### Assessment

Obtaining the capacity to requisition vessels via contractual arrangements would provide a flexible and relatively cost-effective way for the Government to access maritime capability when required. It should also provide a level of certainty to vessel owners and operators over the circumstances in which their vessel could be requisitioned, and the calculation of compensation payable in relation to any incurred costs or losses.



Requisitioning through contractual arrangements should provide the Government with a degree of control over the vessel types available for requisition in times of need. However, its success would be dependent on an increase in the number and diversity of ships on the Australian register and the willingness of vessel operators to either participate in the strategic fleet or volunteer their vessels.

Stakeholders highlighted that certainty regarding compensation for lost commercial business, or to compensate customers whose cargo is diverted, would be required. In particular, stakeholders asserted that they would need to be certain that the level of compensation available to them when vessels were requisitioned would fully cover any additional costs incurred so that they are no worse off due to a requisition. Additional costs that may need to be covered include chartering another vessel to ensure business as usual commercial obligations can be met, and any repair costs if their vessel is damaged while requisitioned.

The Taskforce identified numerous risks associated with this option. Relying on capacity to requisition via contractual arrangements may not be suitable in situations where the Government wants to direct a vessel to engage in activities that present a heightened risk which exceeds the vessel owner or operator's risk tolerance or insurance coverage. Should an operator renege on their contract or dispute its terms when their vessel is requested, resolution of the disagreement may be complex and take time, limiting the Government's ability to respond quickly to an emergency. In such circumstances, a legislative power to requisition may be required to guarantee access to vessels.

Additionally, the international examples canvassed above, including the US MSP, VISA and NATO MSSC are all underpinned by the payment of higher than market freight rates, while the MSP annual stipend is rapidly increasing in cost as the availability of priority cargoes reduces. Consideration of the likelihood of increasing costs being incurred by the Commonwealth in similar circumstances should be considered.

Contractual requisition will only be viable if there is an increased pool, and more diverse types, of vessels on the Australian registers. Without other measures to support the growth of the Australian shipping industry, requisitioning by contract is not likely to be viable.

To address the risk that vessels are not located within close proximity to where they are required at a point in time, a 'vessel substitution' clause that permits vessel operators to substitute an equivalently capable foreign-flagged and crewed vessel in place of the strategic fleet vessel should be considered.

## Requisitioning by legislation

### The option

The Government legislates a power to requisition domestically and internationally trading Australian-flagged vessels in times of national crisis. The legislation must provide for the payment of just terms compensation for when vessels or other services are compulsorily requisitioned, as well as a compensation mechanism to account for any impact on commercial customers who are affected by the diversion of vessels or displacement of cargo.



## Assessment

The current Commonwealth framework for requisition of a vessel is limited, and action is needed to ensure the Government has sufficient powers to requisition Australian-flagged vessels to respond in times of crisis or other national need.

A legislative power to requisition will provide certainty to the Government that Australian-flagged vessels can be called upon as needed in times of emergency. The power may help to address vessel owners' and operators' concerns about insurance premiums, commercial obligations to cargo owners and other Work Health and Safety obligations when vessels are requisitioned.

Stakeholders asserted that certainty regarding the circumstances in which vessels could be requisitioned, and compensation arrangements that would apply, would be required to operate vessels available for requisition with confidence. In particular, stakeholders wanted to understand how their liability to cargo owners could be managed in the event of a requisition.

It was also noted that a legislative requisition power should generally only be relied on in specific and irregular circumstances, such as a natural disaster or preparations for conflict, where there may be limited interest from the commercial sector to provide sealift capacity.

The legislation would enable the Government to requisition vessels designated as strategic fleet vessels but broadening the power to apply to any Australian-flagged vessel would provide the Government with guaranteed access to a greater range of maritime capability, similar to that provided by the US and Singaporean legislation.



A legislated requisition power would work best as a complementary power to requisition capacity obtained through a contract. A legislated requisition power should only be required as a tool of last resort, for situations where vessels are required for situations with a higher level of risk, or when there may be other benefits to either the Government or stakeholders such as managing indemnity and insurance issues.

Ultimately, the powers provided in the legislation must not exceed those reasonably necessary to achieve the ends sought, should cease as soon as the ends are achieved and should not unnecessarily interfere with the rights of any countries or other persons likely to be affected by the measures.

To address the risk that arises when vessels are not located within a close proximity to where and when they are required, the legislation could incorporate a 'vessel substitution' clause to permit vessel operators to substitute an equivalently capable foreign-flagged and crewed vessel in place of the Australian-flagged vessel (where an operator has a wider fleet), with the agreement of the relevant Minister or authority.

Careful consideration is needed to determine the threshold for requisition, to ensure that the range of circumstances is not too narrow, but also so that it is not so broad as to fall outside a head of power. If stakeholders perceive an excessive reliance on the legislative power for responding to minor disruptions, this may act as a disincentive for vessel operators to flag vessels in Australia. Additionally, compensation and insurance arrangements need to be carefully designed and managed to reduce risk to both the Commonwealth and vessel owners and operators.

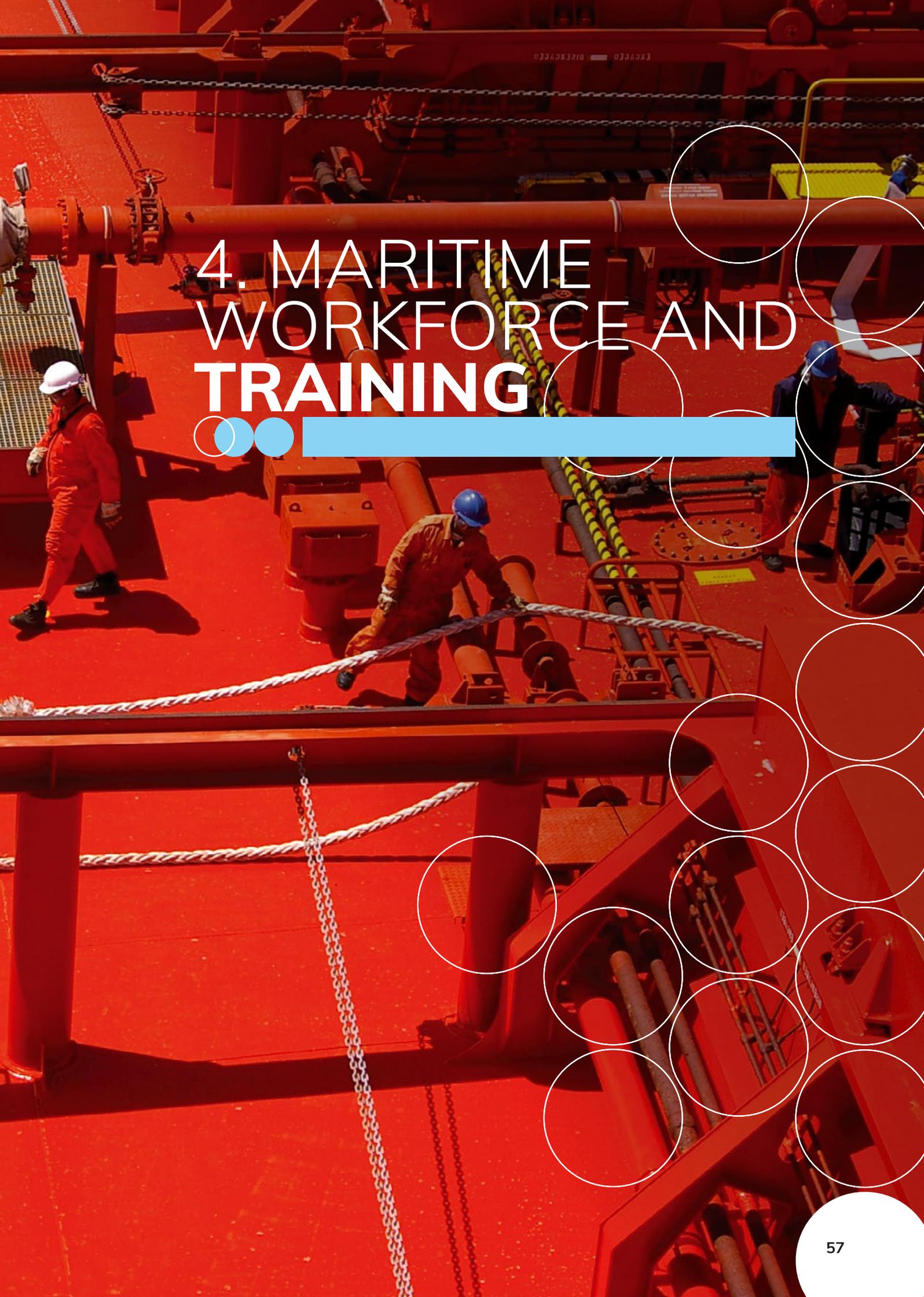


### **Recommendation 8.**

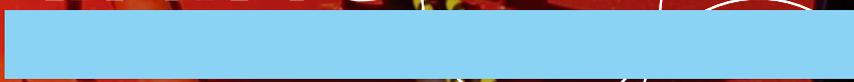
The Taskforce recommends the Government legislate the power to requisition Australian-flagged vessels and establish a complementary capacity to requisition vessels through contractual arrangements with vessel owners and operators of strategic fleet and non-strategic fleet vessels to provide it with the greatest flexibility and assurance of access to vessel capability when required. The extent of the legislative power and terms of the contractual arrangements must provide certainty to stakeholders regarding issues such as the terms of requisition, threshold for requisitioning, and compensation including circumstances of liability and indemnity.







# 4. MARITIME WORKFORCE AND TRAINING





## 4. MARITIME WORKFORCE AND TRAINING

Australia relies on a professional and highly-skilled maritime workforce to ensure vital maritime trade operates safely and efficiently. Suitably qualified and experienced seafarers are critical for at sea roles – such as crewing vessels, pilotage and towage – and onshore to meet increasing demand for seafarers to fill highly skilled roles such as harbour masters to support port operations, and fulfilling regulatory roles such as marine surveyors and compliance inspectors.

In the Terms of Reference, the Government asked the Taskforce to undertake an assessment of workforce issues including any current or anticipated structural shifts in the nature and type of work in the Australian shipping industry, and the opportunities for a strategic fleet to provide secure employment, education and skills development pathways for the Australian maritime workforce.

Growing Australia's maritime skills base is consistent with the objectives of the Government's *Future Made in Australia Skills Plan* and will also support the Government's commitment to implementing several of the recommendations of the Defence Strategic Review, including that a whole-of-government approach to Australia's strategic environment be adopted, incorporating measures to overcome the challenges associated with Defence and civilian workforces.

Where appropriate, the recommendations in this chapter should be considered in the context of the annual maritime workforce development plans prepared by the Transport and Logistics Jobs and Skills Council, Industry Skills Australia.

### Examining Australia's maritime workforce

In undertaking its assessment of workforce issues, the Taskforce has considered:

- the current state of the Australian maritime workforce;
- the existing training and accreditation framework;
- other Commonwealth, state and territory skills and training commitments and initiatives;

- industry-led initiatives to increase the number of trainee seafarers;
- maritime skills census data from 2013 and 2018;
- relevant UK and US initiatives to grow their respective maritime workforces;
- the Defence Strategic Review report;
- the Government commitment to AUKUS; and
- recommendations in the 2013 Maritime Workforce Development Strategy (MWDS) prepared by the Maritime Workforce Development Forum (MWDF).

The Taskforce considers that establishing the strategic fleet and implementing its supporting measures provides a valuable opportunity to re-examine the MWDS and its recommendations and considers that many of them remain highly relevant. For example, the Taskforce has adapted the MWDS recommendation of a national training contribution and facilitating greater alignment between Defence and the commercial sector, and considers that the continuing relevance of other recommendations should be further tested during implementation of the strategic fleet.

The Taskforce has also considered how the introduction of the strategic fleet will increase demand for skilled seafarers over the long-term, and mechanisms to increase the supply of STCW qualified seafarers to ensure supply matches demand. The Taskforce consulted with industry on options to address some of the known workforce issues affecting the maritime industry including costs and other challenges that are causing Australian seafarer shortages, and has taken feedback into account when developing recommendations for the Government.



## Addressing Australian seafarer skills shortages

Australia is faced with a shortage of maritime skills including deck officers, engineers and ratings, with demand already outstripping supply. Without action, the Australian maritime workforce is unlikely to be able to meet the needs of current industry and will not be able to meet the needs of an Australian strategic fleet. There is a number of causes of this shortage, including the cost associated with the traditional cadet training pathways, the decline over time in the number of Australian companies operating ships (that historically provided such training opportunities), and the lack of existing alternative pathways.

The training requirements to obtain deck watch keeper and engineer watch keeper qualifications include theory and coursework, as well as a mandatory supervised sea time component, which are determined by international law. For example, it takes around 15 to 18 months to obtain Rating qualifications, up to 3 years to obtain some junior officer certifications and up to 10 years to obtain competency for highly skilled roles such as harbour masters and marine pilots. Obtaining these qualifications takes time and costs money. The traditional model for entry level seafaring skills development is through company sponsored traineeships and cadetships.

Compounding the problem is the fact that many of the end users of qualified seafarers are a broad cohort of businesses and organisations that do not operate ships of sufficient size, or at all, and provide no training. They therefore do not contribute to the pipeline of skills development that are critical to the functioning of the Australian economy. These include resource companies (shipping superintendents, ship vetting and marine managers), ports (pilots and harbourmasters), regulators (marine surveyors) and training providers (teachers).

Ship owners and operators are in effect subsidising the cost of training on behalf of the broader industry who reap the benefits

without providing a financial contribution. Shipowners and operators have indicated that the expectation that they train for a broader industry beyond their immediate needs is a significant disincentive for them to offer training opportunities.

While the Australian maritime industry has changed over time, there is continued demand for Australian STCW qualified seafarers to fill critical at sea and onshore roles, however maritime workforce censuses show that Australia's maritime workforce is both ageing and contracting. There are growing concerns that the number of trainee seafarers entering the training pipeline to achieve STCW qualifications is insufficient and the Australian shipping industry is increasingly reliant on foreign seafarers, particularly for engineer and deck officer roles.

## Skills gaps (current and emerging)

Data and intelligence considered by the Taskforce highlighted a shortage of trained and skilled Australian seafarers, with low numbers of new entrants to the maritime industry, and an ageing workforce.

Relying on the international labour market presents increasing risks to Australia's maritime capabilities due an increasing global demand for STCW qualified seafarers. Drewry estimates there is currently a shortfall of 35,020 officers worldwide which is expected to increase to 55,685 officers by 2027<sup>8</sup>. With an increasingly competitive international market for seafarers, Australia needs to invest in its own workforce with measures to attract and retain talent in a globally competitive environment to ensure it has the appropriate skillset and labour pool to draw upon in the future.

Establishing the strategic fleet is going to place extra demand on an already tight Australian maritime labour market. This is likely to be further exacerbated by the rapid workforce growth required to support AUKUS, which may result in Defence, the strategic fleet, and

8 Drewry's Manning Annual Review and Forecast 2022-23 Report

industry competing for the same skills from an already limited workforce. During consultation, stakeholders advised a ship recently registered on the AISR (which allows for mixed crew) was in part placed on that register due to the unavailability of sufficient Australian crew to allow it to be registered on the AGSR.

Estimates provided to the Taskforce indicate a fleet of 12 vessels would require an additional 432 STCW qualified seafarers. The Taskforce notes that it will take many years to recruit and train a sufficient number of seafarers to fully crew the fleet of 12 vessels.

**Table 4.1 – Crewing requirements for the Strategic Maritime Fleet**

Crewing requirements for the Strategic Maritime Fleet	
Crewing requirement per vessel	18
Number of vessels in Strategic Maritime Fleet	12
Number of seafarers required on full time basis	216
Number of seafarers required on roster of 1:1 based on 3–7 week rotations	432
Attrition rate 10% (retirement, sick leave, change of industry etc.)	44
Annual training berth requirement to make up for attrition	44

In addition to the demand for seafarers to crew the strategic fleet, there are other demands for STCW qualified seafarers such as the offshore oil and gas decommissioning task, state support for new coastal trading ships (e.g. QLD and possibly WA), the emerging offshore wind energy sector, and from emerging industries such as hydrogen and ammonia and alternative fuel bunker ships. The Taskforce proposals on training to meet the needs of the strategic fleet will have application across all aspects of the shipping industry.

Compounding the current skills gap is that there are insufficient trainee seafarers enrolled in courses that deliver STCW qualifications needed to increase the pipeline of seafarers entering the industry. Importantly, some stakeholders have indicated that there is a demand from the labour market, particularly from people who are ready and willing to commence Ratings training. This indicates that one of the primary issues to overcome to grow the pipeline is encouraging organisations to sponsor more trainees.

## Challenges to growing Australia’s maritime workforce

The Taskforce has identified the major challenges to growing the maritime workforce are:

- costs associated with training;
- limited number and diversity of vessels in Australia’s major trading fleet;
- lack of access to available berths on vessels; and
- difficulty organisations face retaining skilled workers following completion of their training.



## Costs of training for employers and seafarers

There is a longstanding reliance on a limited number of organisations (generally in the blue water and offshore sectors) to invest in training and fund training places for Australian seafarers.

Employer training costs are made up of:

- Training berth including victualling;
- Wages;
- Accommodation;
- Meals/travel allowance; and
- Advertising and administration.

Seafarer training for STCW qualifications (given effect in Australia through the Navigation Act 2012) requires individuals to complete theoretical studies at one of the three maritime training institutions in Australia which are located in Launceston, Fremantle and Newcastle (a fourth, in Cairns is to commence STCW training in 2024). Prospective seafarers face expenses such as travel and accommodation to these training institutions where they undertake months of training at a time.

These out of pocket expenses can be highly variable depending on where a seafarer ordinarily resides. Having only three training institutions which are geographically dispersed along with significant out of pocket expenses present significant barriers to the attractiveness of seafaring as a career option. In 2013, the MWDS estimated the average accommodation and meals cost for the ratings qualification at the Australian Maritime College was \$10,000. It is reasonably expected that the cost has increased over time and would be far greater today.

## Access to training berths on different vessel types

A major contributor to the declining number of Australian seafarers is the limited access to available training berths for prospective seafarers to undertake their mandatory sea-time. Vessel owners and operators have

indicated that they are not making vessel berths available to trainees and cadets over and above their own workforce requirements due to it being uneconomic to do so, rather than there being an insufficient number of berth spaces in the first place.

It is also administratively, financially and logistically difficult for trainee seafarers to coordinate and access their own training berths, as they will often be required to move between different ship operators and owners to access the full sea time requirement for their qualifications.

Similar to trade apprentices, maritime trainees are required to complete a practical component, known as 'sea time', where they must be employed on a vessel. In the maritime industry, self-funded trainees (those not participating in a sponsored traineeship/cadetship) face additional challenges in accessing and completing the mandatory sea time component of their training (due to the potential need to work for multiple employers to obtain their qualifications), whereas apprentices in other industries are generally able to complete their training under a single employer.

Stakeholders reported that trainee deck officers experience barriers to progressing past third deck officer, due to the shrinking size and diversity of the Australian fleet which limits opportunities to gain the necessary sea time to achieve competencies for second officer. This is primarily due to the absence of several key vessel types (such as tankers) from the Australian-flagged major trading fleet which means that seafarers face difficulties obtaining some specific qualifications in Australia, which, if left unaddressed, will have impacts for the crewing requirements of the strategic fleet.

Stakeholders similarly reported there are limited opportunities for Australians to complete their sea time on foreign-flagged and crewed vessels, primarily due to a lack of competitive pay structures and inadequate supervision and competency assessment, but also because there can be limited or no access to pastoral care and support in what can be challenging environments. In the absence of an organised and sponsored cadetship that assists an employee all the



way through their training and sea time it may be difficult for a trainee to work through the different employment arrangements, and training providers may not provide comprehensive support.

## Difficulty retaining skilled seafarers

Many stakeholders in the Australian maritime industry that are capable of providing training berths for seafarers to undertake mandatory sea time asserted that one of the biggest barriers to offering training is the difficulty retaining seafarers following completion of their training. Upon completion of STCW qualifications that are highly sought after across the entire maritime industry, many seafarers regularly leave the bluewater organisation that trained them to work in onshore roles or offshore industries where they command higher wages. This situation acts as a major disincentive to vessel operators offering more training berths.

## Measures to grow Australia's maritime workforce

The Taskforce has developed the following complementary measures to grow and develop Australia's maritime workforce and skills pipeline:

- Coordinate and expand on existing maritime skills and training;
- Government cadetship program funded by a maritime industry training levy;
- Mandatory training berths on strategic fleet vessels;
- Greater alignment between Defence and civilian maritime training and qualifications; and
- Targeted skilled migration.

The Taskforce considers that a mix of all of these measures will be required to grow Australia's maritime workforce and ensure a sufficient supply of STCW qualified and experienced seafarers to meet future demand.

The Taskforce sought stakeholder input as to whether these measures (alone or in combination) would be effective in growing and developing Australia's maritime workforce. General feedback from stakeholders was that any of these measures or any combination of them would grow the pool of qualified seafarers from which to draw upon and would obtain industry support.

## Assessment of options

### Better coordination between governments and industry on maritime training

#### The option

The Government supports a maritime industry training organisation or leveraging an already existing mechanism (such as the Transport and Logistics Jobs and Skills Council, Industry Skills Australia) to lead work across the Commonwealth, state governments and industry to map relevant existing programs and initiatives to assist trainees and cadets to navigate career pathways and access necessary sea time across the variety of vessels required for certification.

A key objective would be to provide clear advice to the Government and industry on a more coordinated approach to designing and implementing initiatives to develop Australia's maritime workforce in the future. The other key objective would be to facilitate the movement of seafarers between employers to gain qualifications and sea time, and overcome barriers to movement including any legal issues (e.g. relating to insurance).



## Assessment

Creating mechanisms to enable better coordination between governments and industry would provide the Government with greater ability to identify opportunities to grow the maritime workforce.

Greater coordination across industry would assist trainee ratings and engineer and deck cadets to access qualifying sea time, and may help to address some of the challenges they face due to the decreasing number of Australian vessels on the coast, and the limited number of training berths currently offered across industry. Greater coordination could also alleviate some of the financial and administrative costs incurred by ship owners and operators, and encourage them to offer more training berths, while raising the profile of seafaring as a career choice overall.

Noting industry is independently undertaking work to optimise the number of trainees coming through the system and to provide smoother pathways to qualification, the Taskforce considers that alignment between governments and industry will be critical, to ensure measures are complementary. This will also be important for coordinating the response to increased demand for maritime skills as a result of AUKUS and the Government's response to the Defence Strategic Review, which may result in increased competition for similar skills between industry and Government.

The Taskforce considers that the recently established Transport and Logistics Jobs and Skills Council, Industry Skills Australia (ISA), may be an appropriate body to lead work on this measure due to its broad remit to collaborate with governments, industry, unions, industry associations and Registered Training Organisations, to identify workforce development needs and formulate industry workforce development plans.

ISA has already commenced preliminary work on its annual Australian maritime workforce

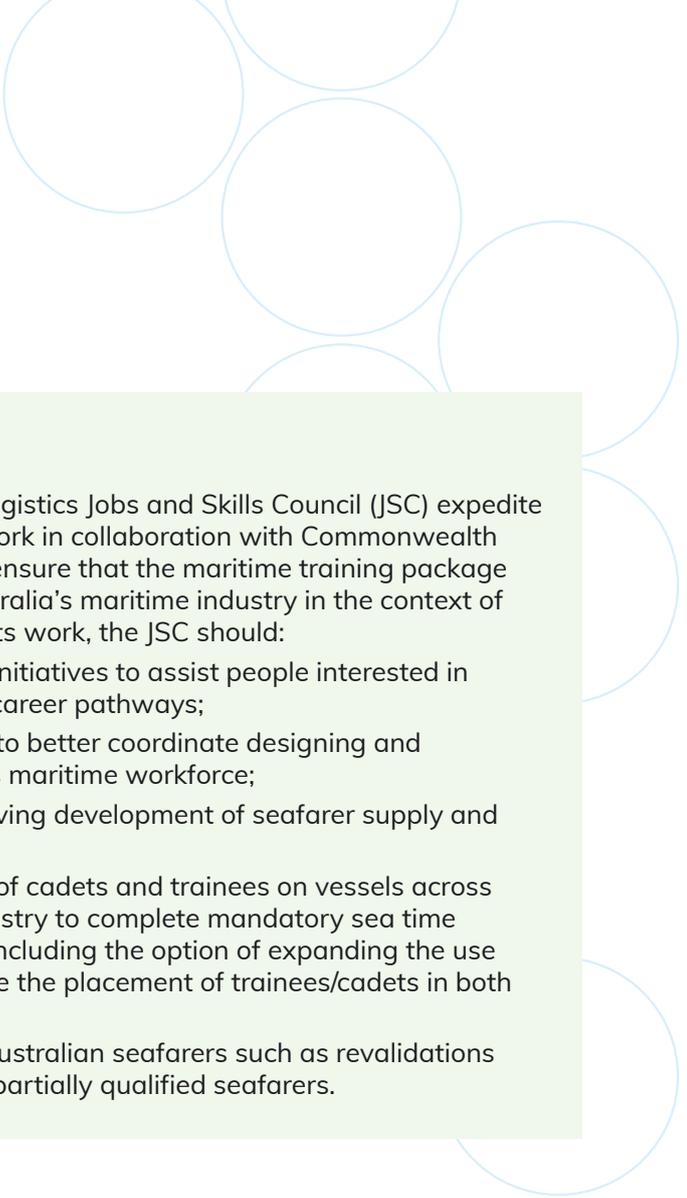
development plan which should build on existing work across Government and that of the Taskforce, to identify opportunities to dovetail existing and future programs and initiatives aimed at growth and development of the maritime industry particularly in the context of establishing Australia's strategic fleet.

The Taskforce notes that coordinating access to training berths on Australian and foreign-flagged vessels is not within ISA's remit. For this reason, the Taskforce considers that ISA should work with industry to consider an appropriate mechanism to better coordinate on-the-job training to facilitate expedited access to appropriate vessels for seafarers to complete their mandatory training obligations to obtain STCW qualifications. Options to overcome any other barriers (including legal, WHS and insurance) preventing seafarers from gaining sea time on a range of vessels and working for a range of companies should also be considered in the context of the maritime workforce development plan.

Similar organisations may already exist for some qualifications (e.g. integrated ratings), but coordination of berths is required for trainee seafarers undertaking university study (officers and engineers) and there would be significant benefit in having one organisation who could manage placement for all types of cadets and trainees.

The Taskforce also notes that this measure could provide scope for better coordination and oversight of quality standards by registered training organisations. ISA could undertake exploration of more innovative training delivery methods and the introduction of a recognition of current competency processes to truncate training completion times for seafarers who have partial qualifications, experience and/or sea time.

Leveraging the work of an existing body such as ISA will likely require Commonwealth funding.



### **Recommendation 9.**

The Taskforce recommends the Transport and Logistics Jobs and Skills Council (JSC) expedite its Maritime Workforce Development Plan and work in collaboration with Commonwealth and state government agencies and industry to ensure that the maritime training package is fit for purpose and considers the needs of Australia's maritime industry in the context of implementation of the strategic fleet. As part of its work, the JSC should:

- map relevant existing training programs and initiatives to assist people interested in working in the maritime industry to navigate career pathways;
- provide advice to the Government on options to better coordinate designing and implementing initiatives to develop Australia's maritime workforce;
- undertake maritime workforce planning, involving development of seafarer supply and demand forecasts;
- consider how to better coordinate placement of cadets and trainees on vessels across the Australian and international shipping industry to complete mandatory sea time requirements to obtain STCW qualifications, including the option of expanding the use of a Group Training Organisation to coordinate the placement of trainees/cadets in both on-the-job and off-the-job placements; and
- consider options to accelerate the supply of Australian seafarers such as revalidations and recognitions of current competencies for partially qualified seafarers.



## Establish a cadetship program funded by a Maritime Industry Training Levy

### The option

The Government establish a cadetship program or similar scheme to reduce some of the financial barriers to maritime training, to be funded by a new training levy on industry organisations that employ or require STCW qualified seafarers for their business.

#### Case Study 1 – Pilbara Ports Authority Cadetship

Pilbara Ports Authority's marine cadetship is a fully mentored career pathway that offers the sailing experience and land-based training necessary to attain a Deck Watch Keeper qualification. The program is structured over three phases, with the total cost borne by the Authority estimated to be approximately \$50,000, which includes:

Phase 1 (pre-sea training – 6 months)

- \$17,500 Training including travel and associated expenses
- \$25,000 Bursary Payments (note this is an annual figure and the actual cost is pro-rata depending on duration of Phase 1)

Phase 2 (Sea going time – 12–24 months)

- Nil cost

Phase 3 (Completion of certification – 12 months)

- \$25,000 bursary payment

#### Case Study 2 – Port Authority of NSW Cadetship

Since 2018, the Port Authority of NSW Sponsored Deck Cadet program has supported eight cadets who are now sailing as deck officers with a range of Australian and foreign-flagged ships or continuing to study at the Australian Maritime College. The training sees cadets complete a two-year course to help them gain the 18-months sea-time required by AMSA to gain a Watchkeeping Certificate.

The Port Authority has established partnerships with various shipping companies including Searoad, Toll, Inco, ASP Ship Management, Teekay, Engage, Smit, Svitzer, Maersk offshore, Siem Offshore, Solstad, P&O Maritime as well as international companies Royal Caribbean International, Seatrade, Oldendorff and Wilhelmsen.

The Port Authority pays the cadets' wages, medicals and flights to the ships, while the shipping companies provide berths and victualling.

The program has commenced 2 cadets every year since the program's inception in 2018, with 8 cadets graduated and 3 of those going on to get full time cadetships within the Australian shipping industry. Unlike the Pilbara Port Authority, the Port Authority of NSW does not support pre-sea training costs and the expectation is that cadets complete 18 months sea time in two years.



## Assessment

The Government should introduce a training levy on industry participants that rely on STCW qualified seafarers for the operation of their business. The training levy would provide for a fairer distribution of training costs across the many diverse organisations that make up the maritime industry.

Stakeholders advised they would employ more trainees if it was more economic to do so, but that they see the attrition rates of trainee seafarers who leave the organisation that provides their training, to work in onshore roles or in the off-shore resource industry, as a significant barrier.

Stakeholders were in general agreement that one way to address barriers to offering more training would be a mechanism to distribute the training costs across all organisations that use STCW qualified seafarers. Stakeholders were broadly supportive of the introduction of a training levy and saw it as a fair and sensible approach to ensuring a sustainable maritime workforce into the future.

The Taskforce anticipates the training levy would apply to a broad range of organisations employing STCW qualified seafarers for the operation or navigation of ships, including in relation to offshore energy installations,

and relevant shore-based services. Such organisations could include private companies, government business enterprises, other government companies and government organisations such as departments and statutory authorities (subject to constitutional limitations). The training levy would provide an important future source of revenue to address current and emerging skills gaps and workforce shortages in the Australian maritime industry.

The Government should provide financial assistance to organisations that provide berths for cadets and trainees to obtain mandatory sea time for STCW qualifications with the revenue collected from the training levy.

The financial impact of training Australian seafarers is being met by too few stakeholders in the maritime industry and without Government action and funding, the number of trainees is not likely to increase sufficiently to meet current and forecast demand. Consequently, the number of training berths being offered is diminishing which increases barriers to labour participation in the maritime industry. A cadetship program or similar scheme that is either fully funded or partially funded by the Commonwealth with revenue collected from the proposed training levy, would reduce disincentives and financial barriers to providing training berths for vessel operators.

### Recommendation 10.

The Taskforce recommends that the Government should legislate to implement a training levy on maritime industry participants that are beneficiaries of STCW qualified seafarers to fund a financial assistance package to assist employers and sponsors of trainees and cadets to meet the costs of training seafarers to obtain STCW qualifications.

### Recommendation 11.

The Taskforce recommends that the Government should establish a cadetship or similar scheme to provide financial assistance to organisations that provide berths for cadets and trainees to complete mandatory sea time requirements to obtain STCW qualifications. As far as possible, the cadetship or similar scheme should draw on the Government's existing schemes to support training such as those that support apprenticeships and traineeships.



## Mandatory training berths

### The option

The Government mandates vessels in the strategic fleet provide a minimum number of training berths per annum.

### Assessment

The Government should mandate a minimum number of training berths be offered on each vessel in the strategic fleet. This could be achieved through the contractual arrangements put in place to establish the fleet. Implementing this mandate will increase the number of training berths available overall across the maritime industry, and build on the mandatory training berth requirement associated with the existing tax regime for AGSR and AISR vessels.

The Taskforce believes that incentives are required to encourage vessel owners and operators to offer access to training berths. In some circumstances, strategic fleet vessel owners and operators may not require trainees on their vessels for their company needs and a mandate to provide berths would mean they are incurring additional operational costs that need to be factored in. Additional costs from providing berths for trainees include wages, food, accommodation and supervision and assessment for competency attainment. Such additional costs could be met by one of the funding options proposed for the strategic fleet to ensure this requirement is not a disincentive to joining the fleet.

Noting the Government's commitment is for a fleet up to 12 vessels, mandating a minimum number of berths on strategic fleet vessels is unlikely to provide sufficient training berths on their own to offset the challenges with accessing berths across the Australian industry. Therefore, this option must be considered as supplementary to other initiatives to grow Australia's maritime workforce.

Stakeholders were broadly supportive of providing additional training berths on strategic fleet vessels, noting that an underlying priority for the fleet should be strengthening Australia's maritime workforce.

Mandating minimum training berths on strategic fleet vessels may act as a disincentive for operators to join the strategic fleet due to significant training costs and no guarantee that trainees will stay with the organisation once their training has been completed. This risk can be mitigated by the Commonwealth designing any strategic fleet industry assistance measures to account for this cost or in the support funded through the proposed training levy.

When developing the contractual arrangements for participation in the Strategic Fleet, the Government should also consider opportunities to leverage vessel operators' wider fleets to create more pathways for seafarers to access training berths on other vessel types, while noting that many vessel operators already offer training berths in order to meet their obligations under the existing tax regime.

While not directly related to the Strategic Fleet, the Taskforce considers there is an opportunity for the Commonwealth to lead by example in supporting Australia's maritime workforce, by providing more training berths on the vessels it owns and operates, including vessels operated by the Australian Border Force. Doing so would signal to industry that the Government recognises there is an issue to be addressed and it is fully deploying its own resources to increase the future supply of qualified Australian seafarers.

## Recommendation 12.

The Taskforce recommends the Government mandate a minimum number of training berths be offered on each vessel in the strategic fleet per annum on top of the existing minimum number of trainees as required to access the zero corporate tax regime. Any additional costs arising from the mandate should be met by one of the funding options proposed for the strategic fleet to ensure it does not create a disincentive to joining the strategic fleet.

## Greater alignment between Defence and civilian maritime training and qualifications

### The option

The Government continue work to provide greater alignment between defence and civilian training and qualifications to enable more flexible movement between the commercial sector and the Royal Australian Navy for roles that recognise suitable experience and encourage greater capacity building between industry and Navy.

### Assessment

Collaborative work by AMSA, Defence, civilian mariner institutions and the Jobs and Skills Council to explore opportunities to facilitate greater alignment between Defence and civilian training and qualifications should be expedited. This work would increase the interaction and participation across Navy and the commercial shipping industry, and directly align with the Government's commitment to adopt a genuine whole-of-government approach to Australia's strategic environment.

Qualifications gained through the Navy cost nothing to seafarers, providing a cost-effective pathway for potential seafarers to enter the commercial industry through service in the Navy, where the Government bears some of the associated training costs. However, this will

only assist with broadening the maritime skills base if there is sufficient alignment between Defence training and sea time opportunities with the requirements for STCW qualifications.

The Taskforce considers that more work needs to be done across Government to understand the similarities between training and skills requirements for Navy and civilian mariners. The Taskforce considers closer alignment between civilian and Defence qualifications, particularly in relation to VET qualifications, is likely to fall within the remit of Industry Skills Australia and it should consider this matter in the context of its maritime workforce development plan, but that there remains an important role for Defence and AMSA to continue their collaborative work.

The Taskforce considers that a reconstituted AMDC or similar body could contribute to greater coordination between Government, Defence and industry, and would align with the recommendations of the Defence Strategic Review to adopt a whole-of-government and whole-of-nation approach to Australia's strategic environment.

The Taskforce also urges that consideration be given to offering opportunities for civilian trainees' berths on ships chartered or owned by the Navy and ABF, cognisant of Navy and ABF's own training pressures, with the potential to tie this opportunity to enlistment as a Navy reservist for the period of time it takes to obtain the qualifications.



### Recommendation 13.

The Taskforce recommends:

- The Australian Maritime Safety Authority, civilian mariner institutions, Defence and the Transport and Logistics Jobs and Skills Council work collaboratively to explore opportunities to facilitate greater alignment between Defence and civilian maritime training and qualifications to enable more flexible movement between Navy and the commercial sector.
- The Australian Maritime Defence Council be re-established to become the principal forum through which the Defence/Navy sealift and other requirements such as workforce development can be harmonised with the civilian shipping industry and strategic fleet ship owners/operators to support the Government's national security and defence objectives, including those arising from the Defence Strategic Review.

## Targeted skilled migration

### The option

The Government targets a short-term increase in migration for STCW qualified mariners to help alleviate labour shortages in Australia's maritime industry if recruitment, training and upskilling of Australian seafarers is insufficient to meet demand.

### Assessment

The Taskforce considers that the Government should focus its effort on recruiting, training, upskilling, and retaining Australian seafarers to crew strategic fleet vessels. In particular, consideration should be given to how partially qualified Australian seafarers could be quickly upskilled.

Targeted skilled migration for seafarers should be kept under consideration by the Government if the training system is unable to respond to the need to accelerate the supply of qualified

seafarers to crew strategic fleet ships when needed, and to meet the wider demand for qualified Australian seafarers.

At present, there are insufficient Australian seafarers to meet demand, and the introduction of 12 strategic fleet vessels will create additional demand in an already very tight labour market. As such, encouraging skilled migration as a temporary measure may help to ensure strategic fleet vessels are crewed while measures are implemented to help grow the Australian maritime workforce. If skilled migration is required, it should leverage traditional pathways through existing visa arrangements to ensure a suitable pool of appropriately qualified skilled labour can be accessed relatively quickly.

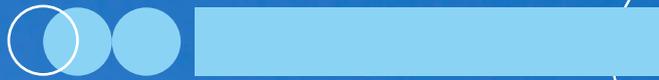
The Taskforce considers that targeted skilled migration could contribute to the Defence Strategic Review recommendation that DFAT lead a nationally determined and strategically directed whole-of-government statecraft effort in the Indo-Pacific.

### Recommendation 14.

The Taskforce recommends the Government consider targeting an increase in migration for STCW qualified seafarers to help alleviate labour shortages in Australia's maritime industry until such time as the supply of appropriately qualified Australian seafarers increases sufficiently. Skilled migration should only be pursued as an option of last resort if an adequate supply of STCW qualified seafarers cannot be sourced domestically.



# 5. OTHER MEASURES





## 5. OTHER MEASURES

Through discussions and stakeholder consultations, the Taskforce has identified other measures that could complement the strategic fleet or support broader outcomes of Government.

These measures include:

- Working with Defence
- Partnerships with other countries and companies
- Links to decarbonisation efforts and use of green fuels
- Ships operated by government agencies
- Servicing Australian external territories
- Partnerships with states and territories

The Taskforce is including these other measures in its advice as options that the Government may wish to investigate further.

### Working with Defence

The Taskforce identified that there are significant opportunities for strategic maritime fleet vessels to contribute to the movement of Australian Defence Force (Defence) cargoes. The Taskforce also notes the release of the public version of the Defence Strategic Review. In the Review, the Deputy Prime Minister and Minister for Defence, the Hon Richard Marles MP, made specific reference to the recommendations of the Review working in concert with other Government policy priorities, including the establishment of a civil maritime strategic fleet.<sup>9</sup>

The Defence Strategic Review recommended that Defence should produce a National Defence Strategy on a biennial basis with the first being delivered no later than Q2 2024<sup>10</sup>. The Government has agreed. The Taskforce notes that a number of recommendations in the Review have direct links to the operation of the strategic fleet. The Taskforce suggests that it is important in developing the National Defence

Strategy that the role of the strategic fleet is a key consideration.

### Defence Strategic Review recommendations

In support of this suggestion, there is a recommendation in the Defence Strategic Review that a National Defence approach should be adopted for defence planning, and that a whole-of-government and whole-of-nation approach to our strategic environment should be adopted.<sup>11</sup>

There are other recommendations of particular interest to the development of the strategic fleet. For example, the Taskforce notes that there are natural synergies between the establishment and operation of a strategic fleet and the need identified in the Defence Strategic Review for a national logistics support concept, which the Government has agreed to develop by 2025.<sup>12</sup> Strengthening Australia's logistical capacity and supply chains is a focal point of the strategic fleet and identifying its role in supporting the development of Australia's strategic, industrial and military logistics capabilities will be important.

The Taskforce also notes the linkages between the strategic fleet's focus on securing supply chains and the Government's agreement in-principle to establishing a whole-of-government Fuel Council 'to deliver resilient national fuel supply, distribution and storage.'<sup>13</sup> Fuel supply has been part of the Taskforce's deliberations, and the role of the strategic fleet could be part of the Fuel Council's considerations.

The Taskforce further notes the Defence Strategic Review recommends that Defence's Integrated Investment Program should be rebuilt in line with the recommended force structure demand. The Review also specifically recommended (and the Government has agreed) that 'industry consolidation options

9 *The National Defence – Defence Strategic Review*, 2023, National Defence Statement 2023, p.8

10 *The National Defence – Defence Strategic Review*, 2023, National Defence Statement 2023, p.99

11 *The National Defence – Defence Strategic Review*, 2023, National Defence Statement 2023, p.34

12 *The National Defence – Defence Strategic Review*, 2023, National Defence Statement 2023, p.108

13 *The National Defence – Defence Strategic Review*, 2023, National Defence Statement 2023, p.107



for the Henderson shipyard should be examined as a matter of urgency<sup>14</sup>. Any consideration of Government investment in maritime infrastructure should consider the needs of the broader strategic fleet and maritime logistics to support Defence to ensure that as far as possible key assets are able to be used for both Defence and commercial capabilities. For example, the proposed redesign of dry-docking and other infrastructure for the Henderson shipyard should enable it to accommodate strategic fleet vessels. This will increase national resilience of shipping logistics.

## Defence requirements

The Defence Strategic Review noted: 'Defence should be the force of the last resort for domestic aid to the civil community, except in extreme circumstances.'<sup>15</sup> The Government agreed-in-principle and responded by acknowledging 'the ADF's role in providing assistance to the civil community following natural disasters comes at a cost to force preparedness, readiness and combat effectiveness.'<sup>16</sup>

The Taskforce acknowledges that Defence has responsibility for a significant shipping task across a range of activities: business as usual, undertaking military exercises, responding to non-conflict crises like HADR operations and conflict operations. The capabilities required to support Defence are also considered in the capabilities and options for establishing the strategic fleet detailed in Chapter 2.

Designated strategic fleet vessels could potentially deliver a complementary capability and service to Defence. The capacity for strategic fleet vessels to respond to natural disasters in Australia and deliver aid to the community will be critically important in light of the findings of the Defence Strategic Review. The Taskforce advice on the design of the initial fleet should include vessels that would provide some support for these Defence needs.

## Workforce opportunities

Working with Defence could also be extended to cover the development of Australia's maritime workforce through opening up training opportunities and alignment over qualifications that were discussed in detail in Chapter 4. Attention could be given, for example, to the standardization or equivalence of naval and civilian licensing qualifications to allow the smooth transfer of experienced and skilled personnel between the two realms.

## Partnerships with other countries and companies

The Taskforce recognises the importance of Australia protecting and strengthening its maritime supply chains. A strategic fleet of 12 ships will contribute to achieving this outcome. The international supply of many essential goods is by sea on container ships, petroleum tankers and break-bulk ships. Maintaining this shipping capability and capacity is critical to national supply chain security, including in times when the supply chain may be under stress. The Taskforce has noted there may be areas where the strategic fleet may not be able to have a material impact on international supply security given the high volumes of cargo moved.

Having in place arrangements to access additional shipping capacity would allow the Government to respond to disruptions or shortages and maintain supply, whatever the good might be. It would also allow Government to prioritise what would be loaded and where, and where cargo would be delivered and when.

The Taskforce sees opportunities for partnerships with other countries and companies to secure this capacity which would supplement the capability of the strategic fleet, and provide broader benefits to Australia. These partnerships would be aimed at strengthening supply chains in the region, with key strategic partners and with partners with access to significant shipping capacity.

14 *The National Defence – Defence Strategic Review*, 2023, National Defence Statement 2023, p.104

15 *The National Defence – Defence Strategic Review*, 2023, National Defence Statement 2023, p.109

16 *The National Defence – Defence Strategic Review*, 2023, National Defence Statement 2023, p.110



## Working government to government

There is an opportunity to supplement shipping capability/capacity by leveraging existing relationships with like-minded governments of countries that currently operate fleets. These strategic relationships could assist where there is a critical need for capacity and this cannot be secured through normal commercial channels. Agreements might be reached with countries to call on their assistance to find capacity during disruption events.

Government-to-government cooperation could be also explored in circumstances where Australia has a shared interest with another country to ensure the continued supply of a specific, critically important cargo to that country.

## Working with shipping companies

There are also opportunities to work with shipping companies to secure capability outside of that contained within the strategic fleet. During consultation, some stakeholders suggested the option of the Government contracting or reserving space on existing routes be used as necessary to supplement the strategic fleet.

This would provide an opportunity to deliver cargo where the strategic fleet does not possess the capacity, or if it would be faster to engage a vessel already at the load port to deliver it. For example, if a good where in a European port, the Government could use the relationship to find a vessel in or near the port, rather than send a vessel located in Australia on a round trip that would delay delivery.

## Partnerships in the region

The Taskforce is conscious that Australia, New Zealand and Pacific Island nations are all part of the same supply chain, and have common risks to supply, given relatively small volumes of cargo (particularly containerised) and being at the end of the shipping supply chain.



Opportunities could also be explored to develop partnerships with these nations, which the Taskforce views as being in the interests of both Australia and our regional partners. Such relationships could strengthen regional supply chains so that essential goods can be supplied on a reliable basis, including when supply chains are under pressure.

It would be a decision for Government to determine the most appropriate form these partnerships take. They could range, for example, from an informal agreement to a Memorandum of Understanding or a legally binding bilateral agreement.

Typically, vessels deployed to the Pacific Islands are geared to get around the lack of shore cargo handling equipment or capabilities they often encounter. It is expected that strategic fleet vessels operating in the Pacific region would have the capacity to load and/or unload cargo without shore cranes or enabling infrastructure. Collaboration with our neighbours would assist with ensuring any deployment of strategic fleet vessels is coordinated and effective.

The Defence Strategic Review identified that Australia needed to enhance its engagement with its partners in the Indo-Pacific region.<sup>17</sup> In this context, the Taskforce considers there could be potential linkages between the strategic fleet, the QUAD, and the Pacific, with the latter highlighted as being key to the security of Australia, with New Zealand identified as a key partner.

Given the important role Australia plays as a shipping hub in the Pacific, vessels in the strategic fleet could be considered for routes that service New Zealand and Pacific nations. This role in supporting supply for the region would complement the delivery of humanitarian aid and responding to disaster relief as necessary. This would also assist in reducing calls on Defence assets which traditionally plays this role. The Defence Strategic Review also noted it expected increases in calls for disaster response, but reinforced Defence resources would be stretched and taken away from its primary objective of defending Australia.

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<sup>17</sup> *The National Defence – Defence Strategic Review*, 2023, National Defence Statement 2023, p.8



## Links to decarbonisation efforts and use of green fuels

The Government has committed to the following decarbonisation initiatives in the maritime sector:

- a. Australia is a part of the International Maritime Organization's (IMO) roadmap that aims to achieve a 40 per cent reduction in CO<sub>2</sub> emissions per transport work by 2030, increasing that reduction to 70 per cent by 2050, as well as a 50 per cent reduction of the total annual greenhouse-gas emissions within the same timeframe.
- b. Australia is a member of Mission Innovation, a global initiative concerned with research, development and action to make clean energy more affordable, attractive and accessible. Mission Innovation's 'Zero Emission Shipping Mission' aims for at least 5 per cent of the global deep-sea fleet measured by fuel consumption to be made of ships capable of running on well-to-wake zero-emission fuels (such as green hydrogen, green ammonia, green methanol and advanced biofuels) by 2030, with at least 200 ships to primarily use zero-emissions fuels within that time frame across the main deep-sea shipping routes.
- c. Australia is also a signatory of the Clydebank Declaration (established at Conference of the Parties 26 (COP26)) that has committed Australia to support the establishment of green shipping corridors (shipping routes between two ports that emit zero emissions during operations). As part of its Transport and Infrastructure Net Zero Roadmap, Australia is working with the maritime industry to develop a Maritime Emissions Reduction National Action Plan (MERNAP). Informed by an industry co-design approach, the MERNAP will set the strategic direction and commitments to actions to decarbonise our maritime transport sector and contribute towards reducing international shipping emissions.

Establishing and operating the strategic fleet could be linked to the Government's broader efforts and commitments to reduce greenhouse-gas emissions, which include decarbonisation of the maritime sector. Encouraging the use of modern vessels that are low emission could be one purpose for the fleet. The Taskforce, however, does not want this to be a barrier for candidate vessels to enter the strategic fleet.

It is also acknowledged that other Government decarbonisation programs may have an impact on the maritime sector. For example, Australia's emissions safeguard mechanism may have an impact on onshore industry that uses shipping. This potential cost needs to be taken into consideration in analysing the effect of any measures to establish the fleet.

The Taskforce also notes there are potential opportunities for Australia to develop a domestic industry around the production of green/future fuels for maritime and other use and that this could increase the use of shipping around the coast.

The Taskforce considers there may be an opportunity to combine Government objectives and work with ship owners who are interested in operating strategic fleet vessels to transition to low or zero emissions ships. Government may wish to consider having strategic fleet programs and greenhouse gas reduction initiatives work together to help make it viable for a business to deploy a strategic fleet vessel that is also zero emissions. There may also be benefit from a training perspective from having ships that use the technology of the future, rather than fuels that will be phased out over time. The Taskforce also noted the Government's commitment made in May 2023 to develop a MERNAP.

Stakeholders who were consulted largely acknowledge and support the need to transition to green fuels in order to maintain Australia's global commitments and to ensure sustainability. Stakeholders expressed a desire to engage more with the Government on cost, production and accessibility of green or future fuels, like bio-fuels, methanol and hydrogen.



## Ships operated by Government agencies

The Taskforce considers that Government itself could contribute more to the maritime industry by making available its non-Defence vessels to respond to national emergencies, such as natural disasters, and by being an exemplar in providing training opportunities for the maritime industry. This concept is consistent with the 'Working with Defence' section of this chapter, which reiterated the point made in the Defence Strategic Review that 'Defence should be the force of the last resort for domestic aid to the civil community, except in extreme circumstances.'<sup>18</sup>

These non-Defence vessels include those under charter in niche non-commercial areas, such as those used by the Australian Border Force (ABF) and Australian Maritime Safety Authority (AMSA). These vessels are typically smaller than commercial vessels, with a much smaller cargo carrying capacity given this is not their primary purpose. Some are former offshore supply vessels, and can only carry small numbers of containers, so their deployment would be limited. Strategic fleet vessels are envisaged to carry volumes of cargo at orders of magnitude greater than these Government vessels are capable of carrying.

While these Government vessels would not form part of the strategic fleet due to their cargo capacity, they could respond to small scale disruption events to deliver cargo, people or services. These vessels may be more able to access smaller communities in times of need.

In addition, the Taskforce sees an opportunity for the Government to make sure berths were made available for training on its vessels to develop maritime skills and training in ways that complement some of the recommendations proposed in Chapter 4.

## Servicing Australian external territories

The Taskforce recognises the importance of ensuring the regular supply of cargo to these islands, noting the challenges in achieving this outcome given the small size of the freight task and their remote locations.

To provide effective and time-efficient transportation of goods and products to Australia's external territories, very specific, specialised vessels are required, particularly given the limited port infrastructure currently available. The existing Australian external territories shipping services involve two foreign small MPVs (general cargo / container) each providing a commercial monthly service – one to Norfolk Island, and the other to Christmas and Cocos (Keeling) Islands. These vessels being on a monthly service due to cargo volumes means costs are increased as the vessels are not fully occupied and will require ongoing Government support.

These vessels would offer limited capacity to the strategic fleet given the small amount of cargo they can transport and would be limited in their ability to provide services in any form of disruption, without introducing a disruption to communities in the external territories.

The Taskforce's view is that the strategic fleet could include vessels that deliver cargo to the Australia's external territories, but these vessels would be additional to the core 12 vessels included to meet strategic need. The Taskforce believes that the funding mechanism for these vessels could be the strategic fleet levy.

The Taskforce notes that if these vessels are Australian-flagged and crewed, they could add to the number of training and employment opportunities available for the Australian maritime industry more generally.

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18 *The National Defence – Defence Strategic Review, 2023, National Defence Statement 2023, p.110*



## Partnerships with states and territories

There is an opportunity for the Government to establish arrangements to allow Australia's states and territories to access the shipping capacity of the strategic fleet under certain circumstances. This capacity would allow the Government to respond to disruptions or shortages caused by natural disasters, for example, and ensure the integrity of supply chains. As part of this arrangement, state and territories could make a financial co-contribution if the strategic fleet vessels deployed operate on routes that are not fully commercially viable.

The Taskforce sees this option as consistent with the Defence Strategic Review, where the Government agreed to work 'in partnership with states and territories to further develop national resilience response mechanisms'<sup>19</sup> in recognition that Defence should only be deployed in the most extreme circumstances.

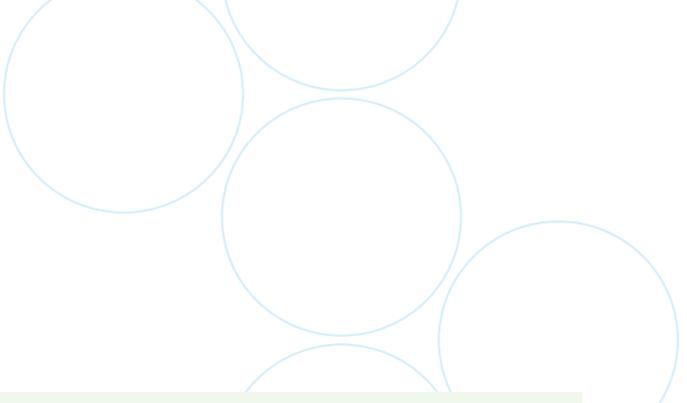
The states and territories have a strong interest in protecting and strengthening their maritime supply chains, with Tasmania, Western Australia (WA) and the Northern Territory (NT) particularly dependent on the supply of essential goods from either overseas or other states and territories. Accessing reliable shipping capacity is even more vital when supply chains come under stress due to disruption events. Historic examples include:

- Cyclones that caused record flooding in Western Australia's Kimberley region at the end of 2022 and beginning of 2023 destroyed and damaged major bridges on the trucking route connecting WA and NT. Detours to deliver food and medical supplies to communities cut off by the floods forced trucks to drive a further 7,400 kilometres to reach their destination.
- Communities in Queensland's north-west region, such as Mount Isa, were cut off by severe flooding in March 2023 and struggled to obtain supplies of basic goods with trucks unable to access the region until water-levels subsided.
- Flooding in South Australia in late December 2022 closed key roads, which isolated communities from accessing assistance and supplies.

The Taskforce notes that some states and territories are already acting in this space. In 2020, for example, the Queensland Government allocated \$21 million towards stimulating a coastal service following the recommendation of the Department of Transport and Main Roads' *Maritime Jobs Taskforce*. The funds will go towards establishing a coastal shipping service to be operated between Brisbane and Townsville, as well as training initiatives associated with that operation. The Queensland Government has announced a number of projects that are being supported under their \$21 million program, including support for a number of training initiatives such as expanding the Great Barrier Reef International Marine College to deliver more maritime training.

The Western Australian Government has established a *Shipping and Supply Chain Taskforce*, partially in response to the January 2022 flooding in South Australia that cut rail freight between eastern states and Western Australia and caused a series of major disruptions to landside transport infrastructure. The Taskforce report has not been released and the Western Australian Government has yet to respond.

<sup>19</sup> *The National Defence – Defence Strategic Review, 2023, National Defence Statement 2023, p.110*



## Recommendation 15.

The Taskforce recommends that the Government undertake further investigation of opportunities identified for measures that could complement the strategic fleet or support broader outcomes of Government. These measures include:

a. **Working with Defence**

The Taskforce notes the recommendations of the Defence Strategic Review, and recommends that the development of the National Defence Strategy should include the potential role of a strategic fleet including the role and needs of a strategic fleet in relation to Defence infrastructure investment (particularly any redevelopment of the Henderson ship dry-docking facilities).

b. **Partnerships with other countries and companies**

The Taskforce recommends that the Government explore opportunities to partner with other countries and with non-Australian shipping companies to secure additional shipping capacity to supplement the capability of the strategic fleet that may be required in times of a national emergency.

c. **Links to decarbonisation efforts and use of green fuels**

The Taskforce recommends Government explore where Government investment in reducing greenhouse gas emissions might extend to reducing or eliminating emissions from strategic fleet vessels.

d. **Ships operated by government agencies**

The Taskforce recommends the Government increase the use of non-Defence Government owned vessels to respond to disasters and other disruption situations and ensure that Government vessels contribute to training outcomes

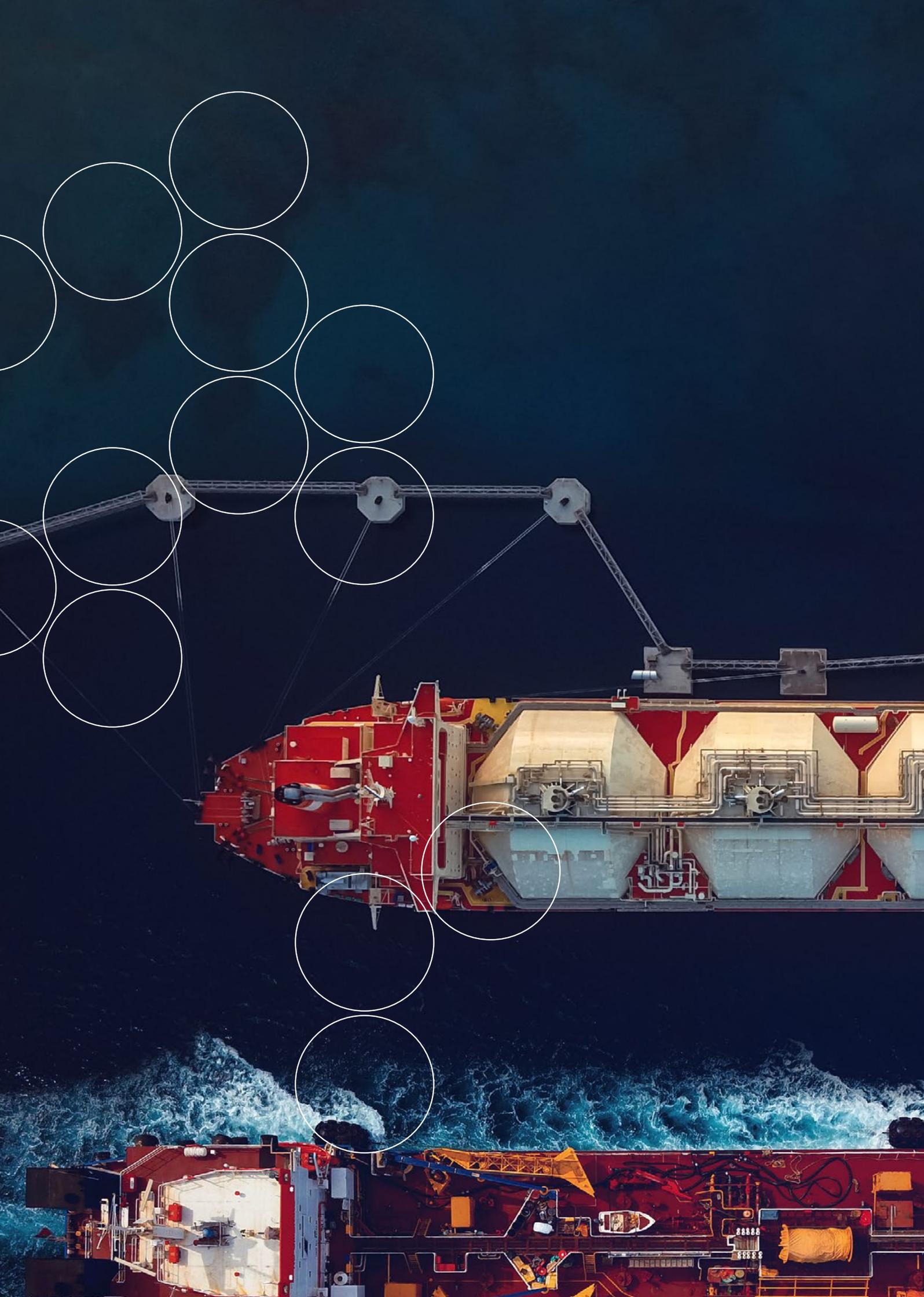
e. **Servicing Australian External Territories**

The Taskforce notes that the strategic fleet could include vessels that deliver cargo to Australia's external territories, but recommends these vessels be additional to the core 12 vessels included to meet strategic need. The Taskforce also recommends that these vessels be funded from the strategic fleet levy.

f. **Partnerships with states and territories**

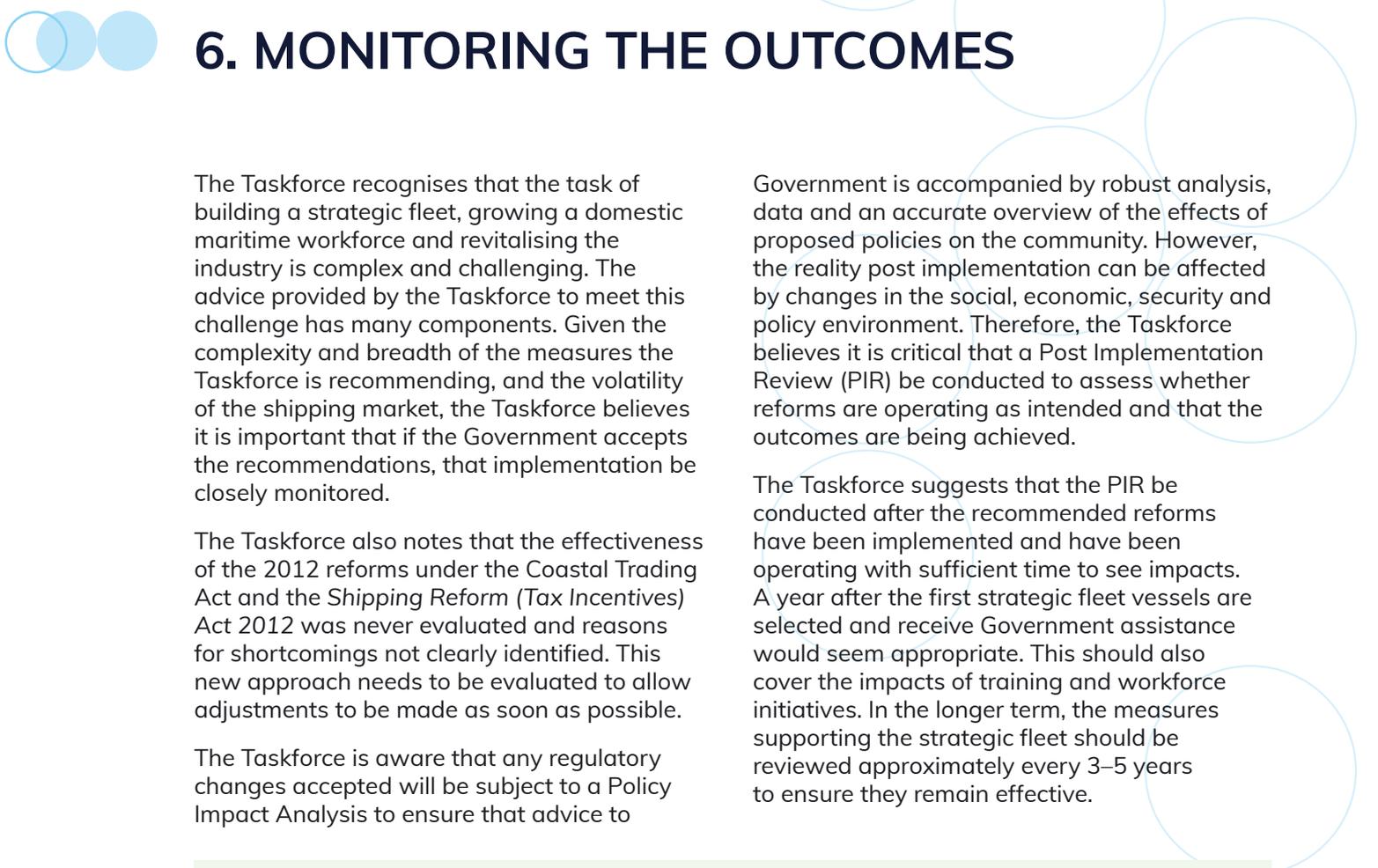
The Taskforce recommends that the Australian Government partner with the states and territories to strengthen supply chain resilience.







# 6. MONITORING THE OUTCOMES



## 6. MONITORING THE OUTCOMES

The Taskforce recognises that the task of building a strategic fleet, growing a domestic maritime workforce and revitalising the industry is complex and challenging. The advice provided by the Taskforce to meet this challenge has many components. Given the complexity and breadth of the measures the Taskforce is recommending, and the volatility of the shipping market, the Taskforce believes it is important that if the Government accepts the recommendations, that implementation be closely monitored.

The Taskforce also notes that the effectiveness of the 2012 reforms under the Coastal Trading Act and the *Shipping Reform (Tax Incentives) Act 2012* was never evaluated and reasons for shortcomings not clearly identified. This new approach needs to be evaluated to allow adjustments to be made as soon as possible.

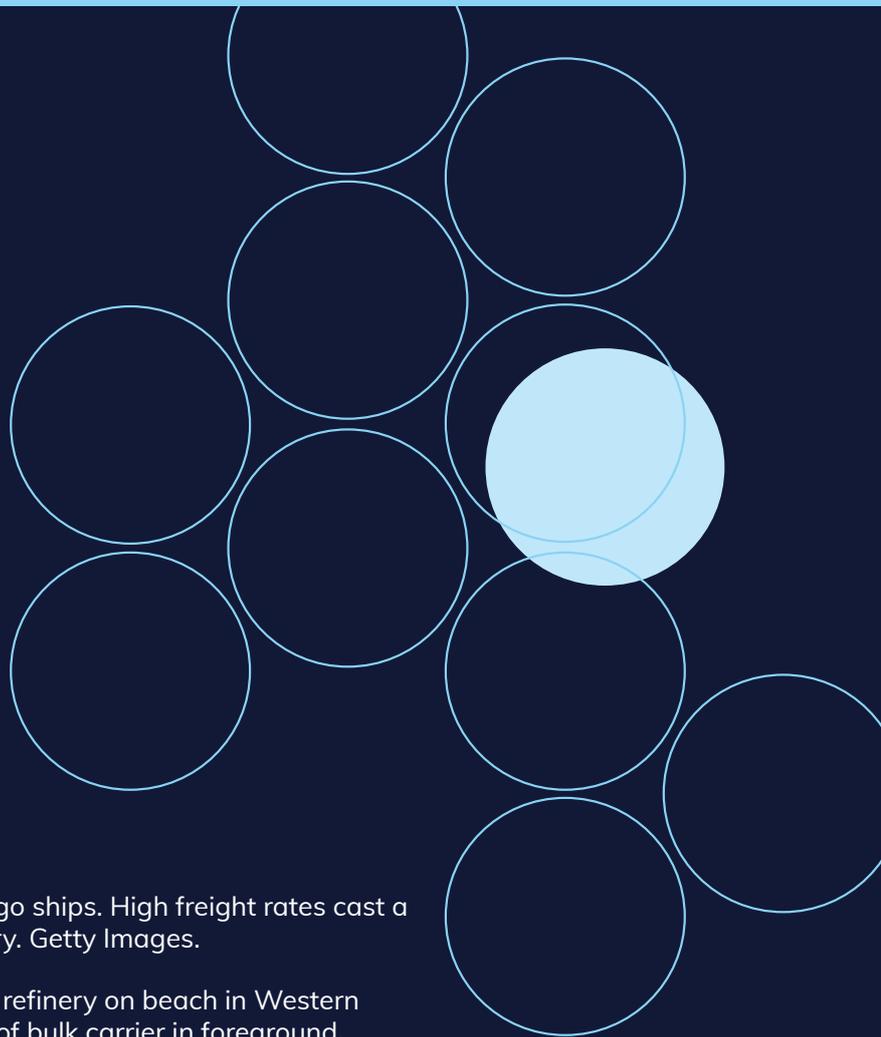
The Taskforce is aware that any regulatory changes accepted will be subject to a Policy Impact Analysis to ensure that advice to

Government is accompanied by robust analysis, data and an accurate overview of the effects of proposed policies on the community. However, the reality post implementation can be affected by changes in the social, economic, security and policy environment. Therefore, the Taskforce believes it is critical that a Post Implementation Review (PIR) be conducted to assess whether reforms are operating as intended and that the outcomes are being achieved.

The Taskforce suggests that the PIR be conducted after the recommended reforms have been implemented and have been operating with sufficient time to see impacts. A year after the first strategic fleet vessels are selected and receive Government assistance would seem appropriate. This should also cover the impacts of training and workforce initiatives. In the longer term, the measures supporting the strategic fleet should be reviewed approximately every 3–5 years to ensure they remain effective.

### **Recommendation 16.**

The Taskforce recommends that a Post Implementation Review (PIR) be conducted a year after the first strategic fleet vessels are selected and receive Government assistance. This should also cover the impacts of training and workforce initiatives.



## Image credits

- Cover Directly above view of two cargo ships. High freight rates cast a shadow over economic recovery. Getty Images.
- Page iv Large industrial plant, alumina refinery on beach in Western Australia. Orange-red coating of bulk carrier in foreground. Getty Images.
- Page 1 Heavily laden container ship entering the Swan River, Fremantle Port, Western Australia, with assistance from two tugs. Getty Images.
- Pages 16–17 Spirit of Tasmania Ferry leaving from Port Phillip Bay at sunset, with Melbourne skyline in background. Getty Images.
- Pages 26–27 Spirit of Tasmania Ferry unloading. Getty Images.
- Pages 46–47 A large coal ship enters Newcastle Harbour to load coal for export. Newcastle is one of the largest black coal export ports in the world. Getty Images.
- Pages 56–57 Deckhands preparing to moor. Getty Images.
- Pages 70–71 Commercial Shipping in Fremantle Port, Western Australia. Getty Images.
- Pages 80–81 Aerial view of LNG and Oil tankers. Getty Images.

