

Strategic Fleet Taskforce

Final Report

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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 just 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 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. At the request of the Hon Catherine King MP, Minister for Infrastructure, Transport, Regional Development and Local Government, 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 and detailed analysis is contained in the Chapters of the Report.



Executive Summary

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 Act.

The Strategic Fleet

Taskforce interim advice

In its interim report 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.

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.

Taskforce Recommendations

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 Government could draw upon when required.

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.

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.

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.

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.

6. Review the Coastal Trading Act

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 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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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 for what the Taskforce would advise Government on. 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 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. A full schedule of Taskforce meetings is provided at **Appendix B**. 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).

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.

In its interim report the Taskforce provided three pieces of interim advice to Government:

1. That there are several strategic needs where a fleet of 12 vessels can have a material effect; some significant strategic needs where the fleet is not an effective response tool; and broader non-freight strategic objectives the fleet could address, including developing the Australian maritime workforce;
2. That Government consider developing and implementing a phased approach to establishing the fleet, with an initial phase seeking to motivate up to four foreign-flagged vessels already frequently engaged in Australian cargo operations to flag and crew these vessels in Australia; and
3. That the Taskforce would continue to engage with the Department of Defence to identify opportunities for strategic maritime fleet vessels to contribute to the movement of Australian Defence Force cargoes, including fuel, vehicles and stores.

The full interim report is at **Appendix C**.

During Phase Two the Taskforce built upon their work in Phase One by considering:

- 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.

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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 the strategic fleet could fulfil.

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 the fleet could meet, 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. Further details on Taskforce consultation can be found at [**Appendix D**](#).

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. A list of Government agencies that briefed the Taskforce can be found in [**Appendix D**](#).

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; a census identifying 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. The research program is at [**Appendix E**](#).

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

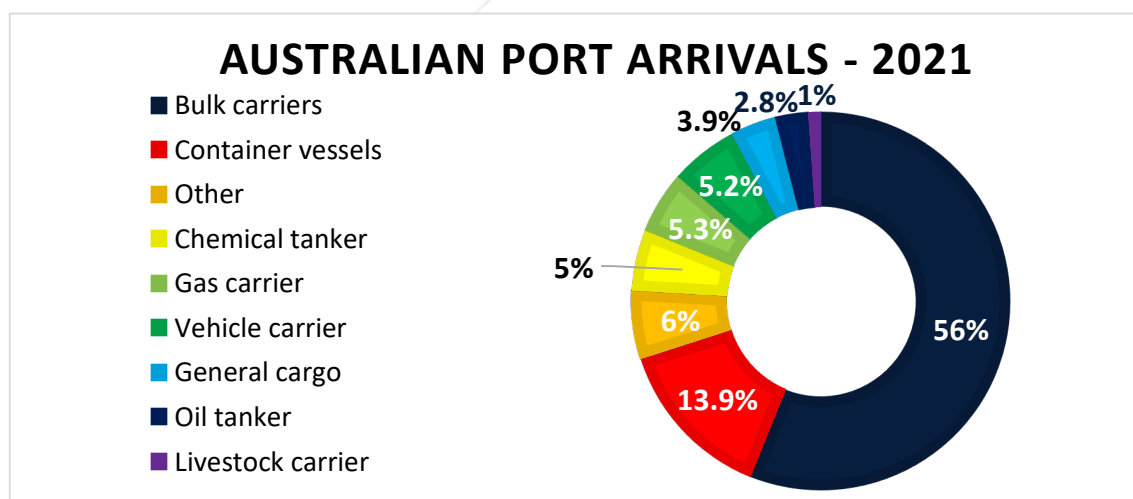
The Australian International Shipping Register (AISR) is an optional shipping register for Australian companies that own or operate ships. The AISR was established in 2012 to provide a competitive vessel registration alternative for Australian shipowners and operators that predominantly engage in international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



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.¹ 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.²

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 4 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.

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.

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.

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.³

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.⁴ 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).

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

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

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.

Australia's trading fleet is broken into the major trading fleet - vessels over 2,000 deadweight tonnes (DWT); and minor trading fleet - vessels under 2,000 DWT. As of December 2022, there are 11 Australian-flagged and crewed vessels over 2,000 DWT holding General Licences under the *Coastal Trading (Revitalising Australian Shipping) Act 2012* (Coastal Trading Act) that operate in Australia's coastal trade. These vessels engage in various trades between Australian ports and are fully engaged on defined routes, with a significant proportion of these vessels servicing Bass Strait. There are 25 General Licence vessels under 2,000 DWT, which include expedition cruise vessels, and barges servicing remote communities.

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 (36.3per 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 (1940's until the 1990's), 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.

Regulation was managed through the cabotage arrangements provided by the *Navigation Act 1912*. This Act established a licence and permit system that granted conditional access to coastal trades to licenced and permitted vessels. Licences granted under the Act granted the unrestricted ability to carry coastal cargoes and passengers by vessels of any flag and crew, provided seafarers were paid Australian wages and vessels were not in receipt of a subsidy. Continuing voyage permits enabled cargo to be carried between specified ports over a 3-month period. Single Voyage Permits were restricted to a single voyage based on application, defined date of voyage and tonnage, and the previously mentioned criteria. Under these cabotage arrangements, vessels were required to be licenced to operate on the Australian coast.

Australia's cabotage arrangements were subsequently covered by the Coastal Trading Act, which enabled 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.

The size of the Australian fleet has been declining for many years with major trading ships (those over 2,000 DWT) falling from 55 in 1995 to 15 today (11 General Licence Coastal Trading ships and four internationally operating LNG ships). Relatively speaking, Australia is a high cost country to operate a vessel on an Australian register. Ships on the Australian registers are (to varying degrees) subject to operating environments that are akin to the cost and regulatory arrangements for land-based businesses operating in Australia.

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

Following the delivery of the interim report on 22 December 2022, the Taskforce's work built on the identified strategic needs contained in the interim report to develop final recommendations to Government on the establishment of an Australian maritime strategic fleet.

The Taskforce has 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

Taskforce interim advice

In its interim report developed to address the first phase of its Terms of Reference, 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's interim advice 1b 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.

The Taskforce's interim advice 1a noted that some components of the strategic freight needs identified were 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.

The Taskforce in interim advice 1c advised of the 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.

As noted in the introduction, 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. Analysis provided to the Taskforce indicates that the cost gap is approximately \$AUD 5-8 million per annum. ^{s47C}

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 in the interim report, 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. This chapter focuses on the potential options to overcome the challenge associated with the higher relative cost of Australian vessels. The potential options to address seafarer training and workforce issues, and options to achieve complementary policy objectives through other measures discussed in Chapter 4 – Maritime Workforce and Training; and Chapter 5 – Other Measures.

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 – i) the conditions and requirements imposed by being on the Australian registers; and ii) 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.

In particular, the Taskforce has considered additional taxation incentives similar to those offered in Singapore that could be offered in Australia. These are examined later in this chapter.

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. **Appendix J** provides a comparison table of Australian-Singapore shipping registers, including incentives associated with 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:

- Container vessels ^{s47D, s47E(d)} [redacted] with geared ship cranes capable of independent container operations;
- Multipurpose vessels (MPV) ^{s47D, s47E(d)} [redacted] 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 ^{s47D, s47E(d)} [redacted]

- Liquid bulk vessels s47D, s47E(d) - configured to carry multiple grades of fuel and chemical products in independent tanks;
- Dry-bulk vessels s47D, s47E(d); and
- Break-bulk vessels s47D, s47E(d).

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

As noted above, the Government commitment specifies that strategic fleet vessels are expected to operate on a commercial basis. Consistent with its Terms of Reference, the Taskforce has 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 identified ten routes to test the commerciality of engaging Australian strategic fleet vessels on these 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 interim advice in relation to strategic shipping needs.

s47D, s47E(d)

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.

Analysis shows that some of the routes and trades for cargoes identified as key strategic freight needs have sufficient cargo volumes and regularity to sustain a vessel. 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 indicated above, (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.

s47D, s47E(d)

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 (such a shallow draft, or the ability to self-discharge cargo – which would assist in disruptions that effect port infrastructure or in regional, remote and Pacific ports);
- 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

As noted, 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.

s47D, s47E(d)



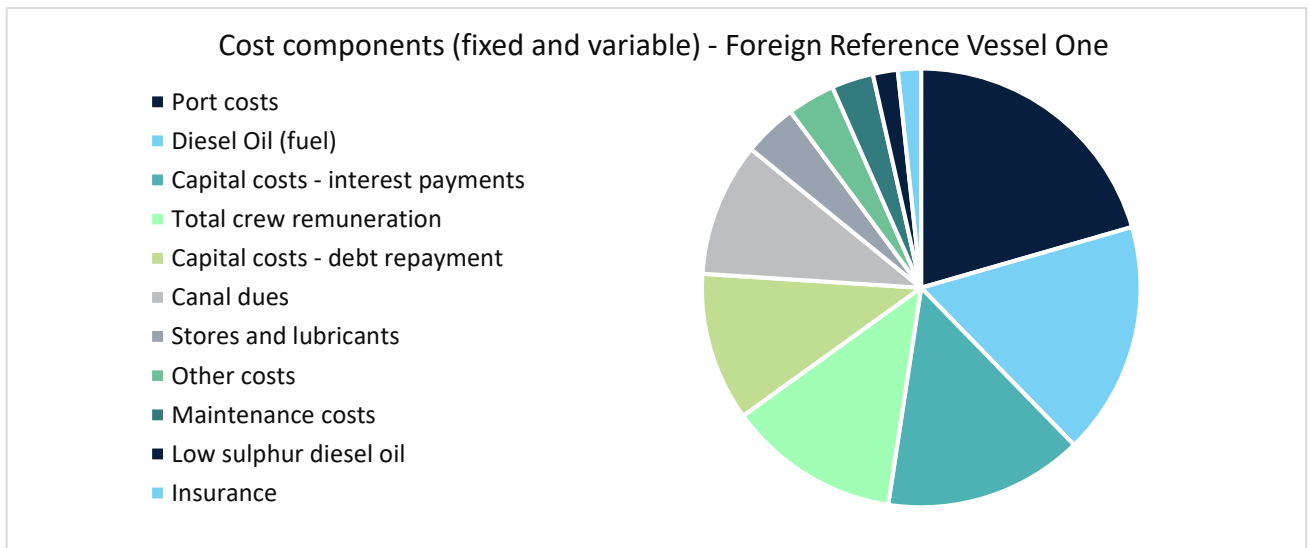


Components of the cost-gap

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. Table 1.2 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 discussed below. Potential options to address the components of cost are discussed later in this chapter.

Table 1.2 – Cost components (fixed and variable) – Foreign Reference Vessel One



s47D, s47E(d)



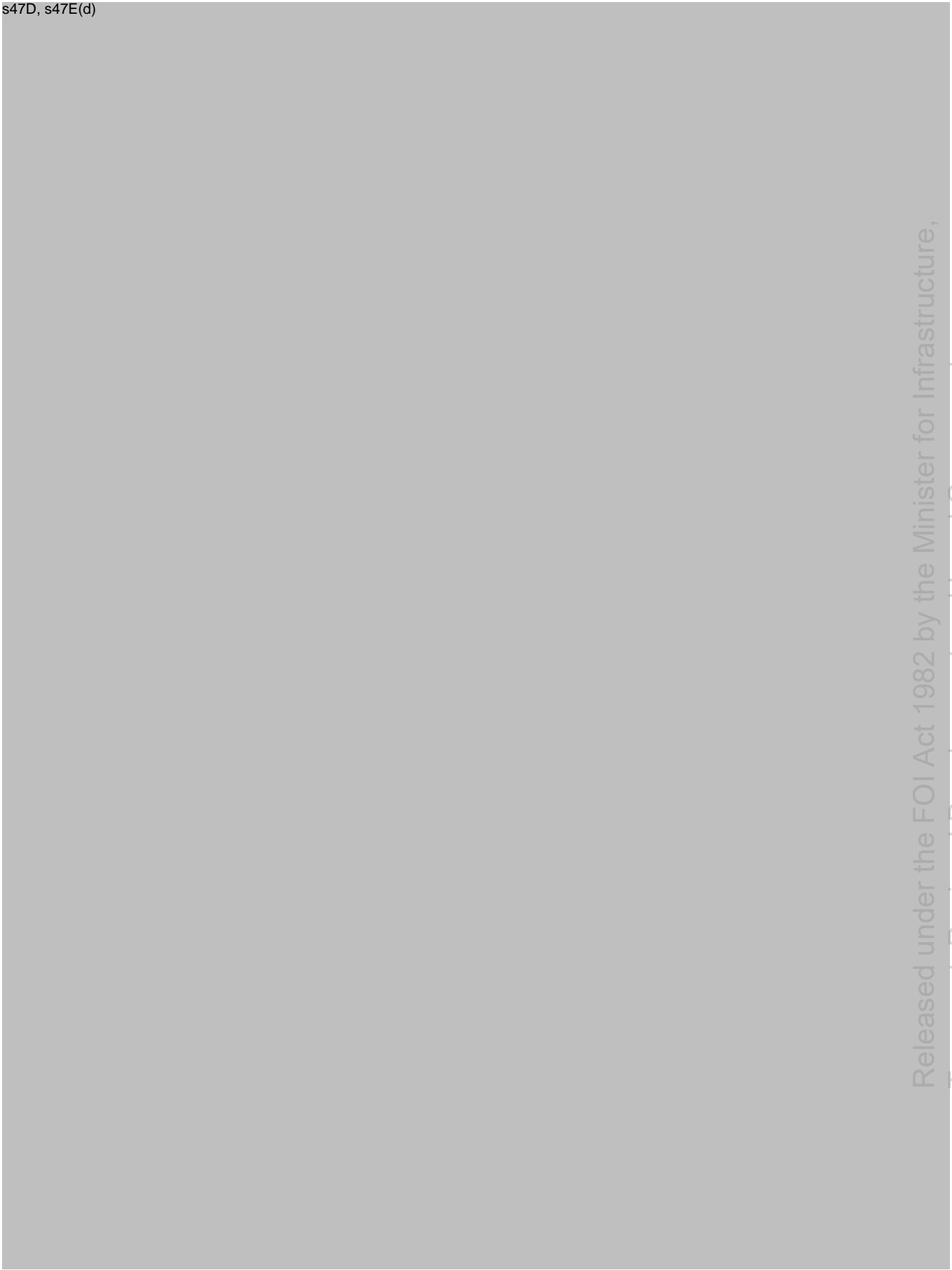
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s47D, s47E(d)

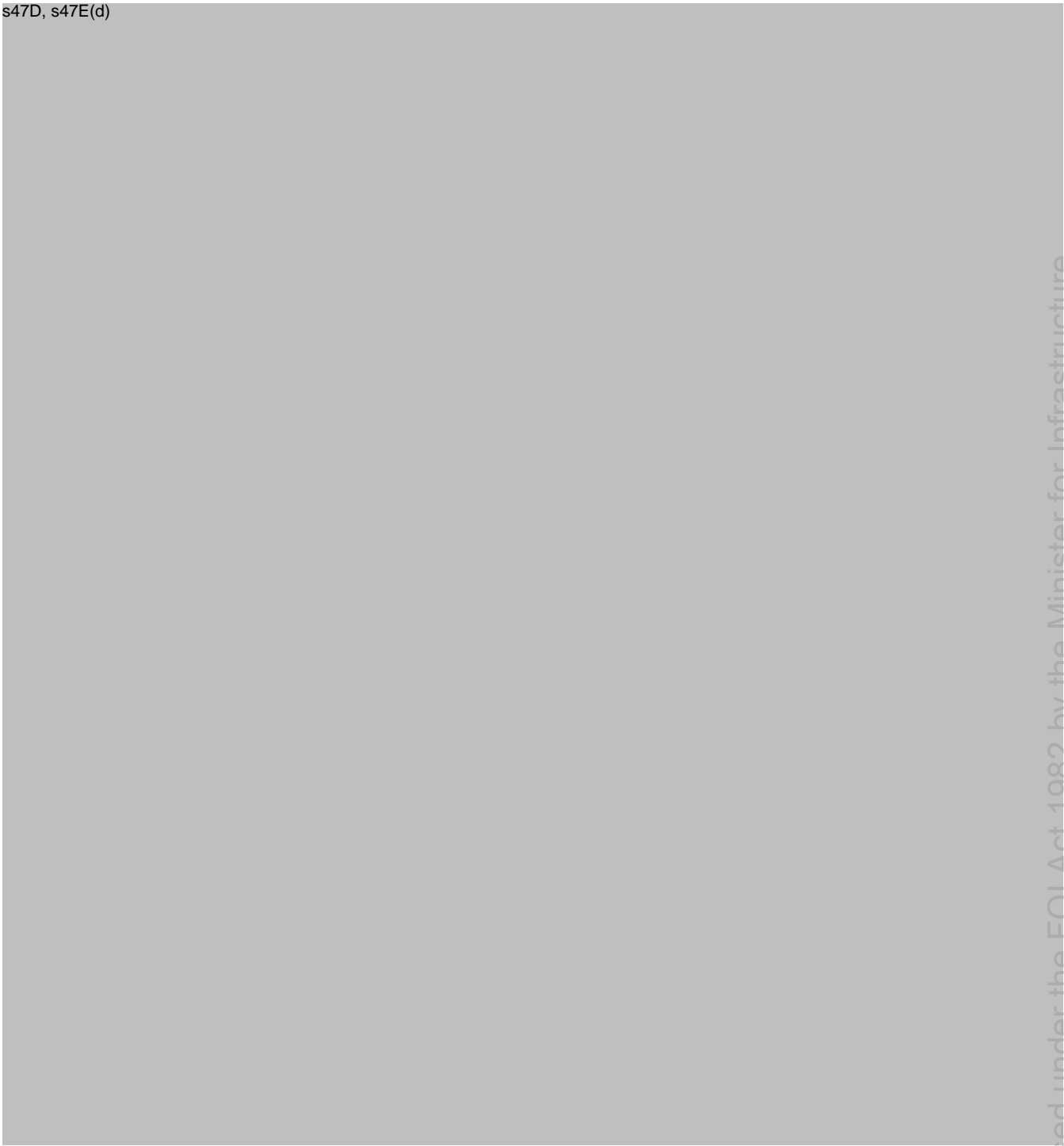
s47D, s47E(d)



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Transport, Regional Development and Local Government



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Transport, Regional Development and Local Government



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 options will be required to address the cost gap. 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 requisitioning component of these models (where relevant) is discussed in **Chapter 3 – Requisitioning Arrangements**. These international models are discussed at length in **Appendix G**.

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

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

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 impose a very high cost on Government. A combined option has been developed to overcome this limitation. This option would provide Government assistance to ship owners and operators, and seafarer income and corporate taxation incentives as a combined measure.

Evidence

The evidence available describing the effect of the individual options that make up this option in addressing the cost gap are provided in the standalone analysis of each option below.

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 options, particularly if imposing administrative burden or financial uncertainty on ship owners and operators, may act as a disincentive.

The Taskforce considers that the options that would work best in combination would be Government assistance, and Corporate Taxation and Seafarer Taxation measures. ^{s47D, s47E(d)}

Seafarer income and corporate taxation incentives if applied broadly to Australian vessels could promote more general investment in the Australian shipping industry. This in turn could contribute to a broader pool of Australian vessels and skilled seafarers, which Government could draw upon when required.

The Taskforce considers that over the medium to long-term some 30-50 vessels could be added to the Australian registers to provide a stronger maritime industry and sovereign capability that provides additional capacity that could be called on by Government.

Government assistance to ship owners and operators

This option would provide ship owners/operators with funding for Australian flagging and crewing, which would correct for the operating cost difference between Australian and foreign vessels. This option was identified by the Taskforce as a preferred option, and has been included in the combined measures the Taskforce recommends Government pursue.

An open and transparent selection process (such as a tender) would be developed to ensure Government assistance provides the best value for money, and a contract would be developed with requirements as determined by Government. The Taskforce considers that these contractual requirements could have regard to a range of factors, including consistency with complementary objectives of Government (i.e. greenhouse gas emissions reduction). The Taskforce also considers that it is important the entities in receipt of funding should have an acceptable track record of corporate social responsibility.


s47c



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.

The evidence

s47D, s47E(d)



s47c



s47D, s47E(d)

Assessment

s47c

s47D, s47E(d)

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 in 2021, and a total program cost for the 60-vessel MSP fleet of \$USD 318 million.

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.

s47c

These stakeholders noted that the effectiveness of any Government assistance was 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

This option would 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.

s47c



s47D, s47E(d)




Assessment

s47c



s47D, s47E(d)



s47D, s47E(d)

s47c

s47c

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. 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.

Taskforce consultation with ship owners and operators indicated that the cargo owner assistance option could be a difficult to implement, with stakeholders indicating a preference for more direct assistance to ship owners and operators.

Corporate Taxation measures

This option proposes that 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.

s47c

s47D, s47E(d)

s47c

of the Australian fleet as envisaged when they were implemented. A description of the existing incentives is provided in the section on History of Government intervention.

Assessment

Feedback from Taskforce consultation was that stakeholders supported this option.

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. s47D, s47E(d)

s47c

Seafarer Taxation measures

The option

This option proposes to make all income earned by Australian seafarers on strategic fleet vessels 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. This would have the effect of lower operating costs for vessel operators equivalent to the amount of income tax paid by crew.

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.

s47c

s47D, s47E(d)

s47c

s47D, s47E(d)

Assessment

Stakeholders supported this option.

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.

s47c

Government charter arrangement

The option

The Government would 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.

The evidence

The Taskforce notes that there is a range of charter arrangements and that charter rates that Government would need to pay would vary with different vessel types and sizes. ^{s47D, s47E(d)}

Charter arrangements may be cost-effective relative to other options where Government has a specific and time-limited cargo requirement in mind, such as deliveries of military equipment for the ADF from international suppliers; movement of cargo for scheduled military exercises; or resupply of Antarctic and Sub-Antarctic bases and research installations. A longer-term chartering arrangement also provides Government with the ability to defray the costs associated with the charter by chartering vessels out to third-parties (particularly if daily charter rates increase after Government has entered into the charter agreement). The Government charterer would also be liable for the increased charter rate that would result to cover the cost gap for the vessel to be Australian-flagged and crewed.

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. The Taskforce notes there are existing standing offers arrangements operated by the Department of Defence that charter vessels to provide shipping services for ADF purposes.

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. For example, chartering shallow-draft MPVs or geared container ships, would likely suit a broad range of anticipated cargo movements and possess capabilities needed to respond to disruptions. In particular vessels geared with cranes to load and unload cargo would be needed for ports with minimal infrastructure in Australia's regions or the Pacific.

Chartering arrangements – such as bareboat charter – may enable Government to control aspects of vessel operations. This could include Defence taskings where the selection of appropriately vetted crew is necessary.

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.

s47c

s47D, s47E(d)

s47D, s47E(d)

Assessment

s47c

The Taskforce also notes that a number of 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 under the Safeguard Mechanism administered through the National Greenhouse and Energy Reporting scheme⁶.

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. 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. The Taskforce notes that should trades or routes be reserved, that a transition period may be required to ensure vessel owners and operators are able to make the appropriate commercial adjustments to source, crew, re-flag and deploy vessels that meet the criteria to be Australian strategic fleet vessels. This may need to include a date after which Temporary Licence vessels can no longer be used and hence force the deployment of Australian-flagged and crewed vessels.

Taskforce consultation with ship owners and operators 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. These stakeholders 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.

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. s47c

s47c

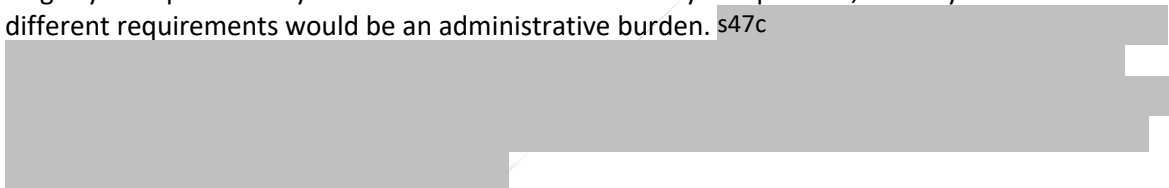
⁶ Clean Energy Regulator, The Safeguard Mechanism, available at <https://www.cleanenergyregulator.gov.au/NGER/The-safeguard-mechanism>

s47c



Assessment

Taskforce consultation with shipping owners and operators 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. s47c



s47c



While this option may 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

This option would 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.

Prioritisation of Australian vessels and reduction in fees could form part of a broader package of changes intended to decrease the cost gap and motivate Australian commercial vessel registration and crewing. Fees and charges are currently charged on a like-for-like basis, without regard to a vessel's country of registry.

The evidence

Analysis conducted for the Taskforce indicates that port fees and charges are dependent on several factors including vessel tonnage and type, vessel activity and the frequency of port visits. s47D, s47E(d)

[Redacted]

s47c [Redacted]

Assessment

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. s47c

[Redacted]

s47c [Redacted] a total exemption from port fees and charges would not be sufficient by itself to address 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.

s47c [Redacted]

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

The Taskforce notes that while increasing compliance activity may detect additional non-compliance and inform Government about non-compliance rates, increasing compliance activity itself may not contribute enough towards reducing the cost gap, or 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. This option could be implemented as a short-term measure to ensure compliance with existing regulatory requirements but is unlikely to provide a significant driver to flag vessels in Australia.

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. ^{s47D, s47E(d)}

s47D, s47E(d)

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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.

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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 an MOU 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.

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 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.

Fair Work Act 2009

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

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 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 1903

Section 67 of the *Defence Act 1903* (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 1984

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)⁷. 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.⁸

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.

⁷ 'We need our own Elvis': Former fire chiefs warn Australia is unprepared for bushfire peril', SMH – 12 March 2019

⁸ '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. The potential benefits and risks associated with each model, and their applicability within the Australian context have been factored in, and are discussed at length in [Appendix G](#).

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* 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.^{s47c}

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Scenarios where 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 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. recent flooding in the Kimberley WA); 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 time-charter (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.

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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.

Option assessment and risks

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.

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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.

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Risks


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.

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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.

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Stakeholder views

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.

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.

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.

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.

Risks


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.

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Released under the FOI Act 1982 by the Minister for Infrastructure,
Transport, Regional Development and Local Government

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 and interim data from 2023;
- 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. See [Appendix H](#) for more information on the MWDF and MWDS.

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 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)

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Based on data available, there does not appear to have been any improvement in the ongoing shortage of trained and skilled Australian seafarers, with low numbers of new entrants to the maritime industry, and an ageing workforce. The dataset is largely consistent with what stakeholders reported during consultation with the Taskforce.

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

2027⁹. 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.

The Taskforce acknowledges there is already work happening in this space across the Australian and state and territory governments, and that industry is undertaking a number of streams of work separate to governments to address the shortfall in Australian seafarers. A key component of taking forward any new initiatives in relation to the strategic fleet should be how it aligns with, builds on and complements those existing initiatives.

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 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. For example, while the 2018 maritime skills census reported 127 trainee seafarers in the pipeline to achieve STCW qualifications, by 2021, that number had fallen to 90 maritime trainees, across both STCW and Domestic Commercial Vessel qualifications. Importantly, some stakeholders have

⁹ Drewry's Manning Annual Review and Forecast 2022-23 Report

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

As discussed earlier in the chapter, 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.

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Employer training costs are made up of:

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

There are other barriers for seafarers seeking STCW qualifications. 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 off-shore industries where they command higher wages. This situation acts as a major disincentive to vessel operators offering more training berths.

International Maritime Skills and Training Models

In developing its advice, the Taskforce considered examples of workforce initiatives from other countries and examined the approaches used, including measures implemented by others to address issues of cost and training berth availability, and the effectiveness of such measures.

Models considered were from the UK and US, including the UK Support for Maritime Training (SMarT) scheme, the Trinity House Merchant Navy Scholarship, and the various measures implemented by the US Maritime Administration (MARAD).

UK SMarT Scheme

Support for Maritime Training (SMarT) is a scheme established and funded by the UK Government with the objective of increasing the number of qualified seafarers in the UK maritime industry. SMarT was established in 1998 and supports maritime trainees to undertake approved training courses via a co-contribution made to sponsoring companies enrolled in the scheme.

With a capped annual budget of £15 million, SMarT pays up to the equivalent of 50 per cent of training costs per trainee, supporting cadets to undertake eligible deck officer, engineer and ratings training in order to achieve specified competencies. SMarT funding is available to cover at sea and/or onshore costs, depending on which course of study a trainee is undertaking. For example, funding is available for at sea and onshore costs for employers of trainees undertaking a course designed to lead to a competency in the following capacities:

- Deck Officer of the Watch Unlimited (OOW) STCW Reg II/1
- Engineer Officer of the Watch Unlimited (EOOW) STCW Reg III/1
- Electro-Technical Officer (ETO) STCW Reg III/6.

Funding under the SMarT scheme for at sea training is only available for trainee ratings and for those undertaking ratings to officer conversion training in certain circumstances – otherwise, it solely covers onshore training course costs for these trainees.¹⁰

Trinity House Merchant Navy Scholarship (UK)

The Trinity House Maritime Charity is the UK's largest-endowed maritime charity, with a mandate to provide education, training and welfare for mariners of all ages. Funded entirely through registered charities, Trinity House sponsors 32 cadets annually, including deck officer, engineer officer and electro-technical officer cadets, through the Merchant Navy Scholarship Scheme (MNSS). The MNSS provides a bursary to cadets, as well as opportunities to access coordinated training berths across a wide variety of vessels, including commercial, UK Government and Royal Naval vessels. The MNSS also provides pastoral care and mentoring to cadets.¹¹

US Merchant Marine Academy

The US Merchant Marine Academy (USMMA) is a federal service academy that educates licensed Merchant Marine Officers and commissioned officers in the Armed Forces. The USMMA includes an academic program experience working on commercial or military vessels. Program graduates acquire a Bachelor of Science degree, US Coast Guard license and an officer's commission in the US Armed Forces.

All graduates have a service obligation upon graduation that provides the most career options offered by any of the federal academies. Graduates can choose to work five years in the US maritime industry with eight years of service as an officer in any reserve unit of the US Armed Forces, or five years on active duty in any of the US Armed Forces.

¹⁰ [Support for Maritime Training \(SMarT\) Funding \(ukshipregister.co.uk\)](https://www.ukshipregister.co.uk/support-for-maritime-training-smart-funding)
¹¹ [Merchant Navy Scholarship Scheme | Trinity House](https://www.trinityhouse.org.uk/merchant-navy-scholarship-scheme)

The US Government pays the majority of the costs associated with enrolment at USMMA. Midshipmen receive tuition, room and board, uniforms, and textbooks at no cost, with financial aid available to cover fees for personal services and educational items (e.g. computers).¹²

US Student Incentive Payment Program

The Student Incentive Payments Program (SIP) is a federally funded initiative through the US MARAD. The Program provides financial support equal to USD \$8,000 each academic year up to a total of USD \$32,000 for each student enrolled in the Strategic Sealift Midshipmen Program. Upon graduating, officers become part of the Navy's Strategic Sealift Officer Force.

SIP recipients must, on graduation, meet certain criteria, including maintaining a valid license as an officer in the merchant marine of the United States for at least six years and international endorsements and certification as required by the US Coast Guard.

SIP recipients must also meet service obligations, either through serving as an officer in the US Naval Reserve, as a commissioned officer on active duty in the US armed forces or other US Federal Government service, or as an officer with the US Coast Guard.¹³

Applicability of international training models in the Australian context

The Taskforce considers that there are elements of the international training models that could be adapted for the Australian context, and inform implementation of the measures discussed below. For example, the Trinity House Merchant Navy Scholarship provides a good example of a centrally coordinated scheme that provides cadets with opportunities to undertake qualifying sea time across a wide variety of merchant, defence and government vessels.

The UK SMarT Scheme has proven to be popular with employers with a high degree of uptake (approximately 95per cent of available funding) each year. The UK experience also shows that sponsored cadets have a very high employment rate on graduation – up to 99per cent.¹⁴ Additionally, the US examples demonstrate how government funded training can support national security while building the overall maritime skills base.

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.

¹² [About USMMA | U.S. Merchant Marine Academy](#)

¹³ [The Student Incentive Payment \(SIP\) Program | MARAD \(dot.gov\)](#)

¹⁴ [Support for Maritime Training \(SMarT\) Scheme Review](#)

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.

Option assessment and risks

Better coordination between governments and industry on maritime training

The option

The Government supports a maritime industry training organisation or leverages 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 for the responsible organisation(s) 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).

Evidence

There is limited coordination across government and industry on maritime training and education in Australia. The general public are mostly unaware of seafaring as a career option and there is limited information available to guide prospective seafarers on entering the industry.¹⁵

Due to the limited vessel types in Australia's major trading fleet, and the lack of access to available training berths on those trading ships. With AMSA's approval, some seafarers have completed sea time training on Australian crewed foreign-flagged vessels to obtain qualifications, mainly in the oil and gas sector. Accessing training berths on foreign-flagged and foreign crewed internationally trading ships is difficult for Australian seafarers as they are at a disadvantage compared with many foreign seafarers due to wage differences. Even if they are willing to accept lower wages, obtaining training berths remains a challenge without having existing relationships in the international industry.

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¹⁵ GHD Report 2 Workforce p.12

Stakeholder views

Some stakeholders considered more work is required to raise awareness among school leavers and career changers about the maritime industry, and career pathways within it. Stakeholders also noted that it is becoming increasingly more difficult to find sufficient Australian crew to operate vessels, and they are becoming increasingly reliant on foreign workers, at the same time as competition in the international market is increasing.

During consultation, some stakeholders suggested that increasing the attractiveness of maritime careers, particularly for trainee officers and engineers who face significantly greater cost and time commitments to progress through to higher levels of qualification, is an important part of the solution.

Stakeholders suggested that, to be successful, this option would require the support of the broader maritime industry, AMSA, and the maritime training providers.

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.

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.

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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.

Existing government Initiatives

The interaction of these measures with other Government initiatives should be explored, including the Government's ^{s47D, s47E(d)} *Future Made in Australia Skills Plan*. The Taskforce also notes that work is underway on delivering on the Government's skills agenda, and considers that the measures outlined in this report should leverage existing initiatives to support the development of the maritime workforce, as far as possible. Increased awareness of the maritime sector as a result of AUKUS could also be leveraged to promote maritime careers.

Work should also be done to better understand common issues and potential opportunities for cooperation with the Western Australian Government following completion of its Shipping and Supply Chain Taskforce, and with the Queensland Government to understand opportunities to dovetail its \$21 million coastal shipping, maritime skills and training grants program.¹⁶

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.

Evidence

The 2023 Productivity Commission Inquiry report into Australia's Maritime Logistics System noted that skills shortages in the Australian maritime industry may be addressed through cadetships. A cadetship is usually a two-year program where a trainee seafarer is sponsored to attain certification and is provided the opportunity to gain sea-time experience under an employment contract with a shipping company (which is required for certification). Stakeholder views regarding cadetship programs are outlined below.

The Taskforce analysed two successful cadetship programs being run by the Port Authority of New South Wales and the Pilbara Ports Authority, respectively. Both ports train up to two cadets each year and reported 100per cent completion rates for their programs, which demonstrates that there is demand for maritime cadetships. With the right framework in place, a national program run by the Government that targets current and emerging skills gaps could help address the shortfall of Australian seafarers. The total costs of each program per cadet are not directly comparable, as they differ in their approach. The approach of each is covered below, with further detail on the Pilbara Ports Authority Cadetship set out in **Appendix I**.

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. Since the Port Authority is not a shipping company, the port officer enterprise bargaining agreement has been used as a proxy to determine the current annual cadet wage of \$42,700 per year for deck cadets (Corporate and Maritime Officer Level 1).

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.

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Stakeholder views

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.

Stakeholders also noted that the cadetship programs operated by the Port Authority of NSW and Pilbara Ports Authority had been very successful, with effectively zero attrition and a high degree of satisfaction expressed by both employees and employers.

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.

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.

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.

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Mandatory Training Berths

The option

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

Evidence

A major challenge experienced by prospective seafarers entering the maritime industry is the lack of training berths available in the Australian fleet. There are few remaining Australian-flagged vessels

operating today and some organisations are not offering training berths due to the high costs of training, with no guarantee of retaining the skilled seafarer after qualifications are achieved. These challenges are all contributing to limited options for seafarers to undertake qualifying sea time to attain certification and enter the maritime industry and achieve career progression.

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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.

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.

Implementation considerations

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.

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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.

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The MWDS also suggested the Government explore the utility of trainee seafarers enlisting as Navy reservists to complete both civilian and Navy qualifications, on the understanding that they would transition to commercial seafaring roles, but remain members of the Navy reserve. This measure may also encourage civilian seafarers to consider a career in the Navy.

The Taskforce notes the relevant recommendations in the MWDS are similar to international models such as the USMMA, where civilian seafarer training is funded by the Government but accompanied by mandatory service obligations as either fully commissioned officers or reservist duty.

The Taskforce understands that AMSA and the Department of Defence are already active in this space, with changes already made to how AMSA recognises sea service time for specific Naval roles and vessels. However, there remains a role for Defence to modify some of their methods of training to meet the requirements for STCW qualifications, to ensure greater alignment between civilian and Defence qualifications.

The Taskforce also notes a re-enlivened Australian Maritime Defence Council, including a review of the membership and Terms of Reference for the AMDC, would provide a forum to coordinate work between Government and industry.

Continuing work to facilitate greater alignment between Defence and civilian qualifications would be unlikely to pose new costs to Government as it would be expected that such work forms part of the core business of AMSA, Defence and the Jobs and Skills Council.

Stakeholder views

The Department of Defence is supportive of the need for, and benefits to be had from, growing Australia's merchant marine workforce to support the objectives of the strategic fleet and has identified opportunities for mutual workforce and skills development, including:

1. Common training and qualification pathways for masters, deck officers, mates and ratings, and engineers and technicians and naval equivalents;
2. Potential for alignment with the Australian Maritime College on elements of naval training with STCW competencies;
3. Provision of sea-riding and consolidation opportunities for merchant navy cadets in navy surface vessels where operational tasking and capacity allows; and
4. Better managed transition post-RAN service for seagoing personnel into merchant seafaring roles.

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.

Recommendation

13. 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.

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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.

Evidence

Considering the long lead times for training new seafarers, it will be necessary to find a pragmatic way of dealing with the immediate skills shortages in Australia's maritime labour force, one option

may be short-term, targeted skilled migration, particularly for deck and engineer officers. It is expected any increase in targeted skilled migration to supplement Australian seafarers would be unlikely to pose new costs to Government as there are established migration schemes and programs that can be leveraged.

Stakeholder views

Stakeholders raised concerns about existing shortages in the number of qualified Australian seafarers, particularly officers and engineers, which is driving increased reliance on recruiting from the international labour market.

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.

Implementation considerations

Targeted skilled migration alone cannot ensure sustainability in the Australian maritime workforce. If required, it should be implemented in parallel with the recommendations outlined in this chapter to grow Australia's maritime workforce to reduce future reliance on skilled migration.

s47c

While noting existing programs and pathways should be leveraged wherever possible, should changes to Australia's migration program be required to implement this option, this would need to be worked through Government processes.

Risks

Given the high level of demand for skilled seafarers in the international market, there is a risk that Australia will not be able to attract sufficient international seafarers to meet demand. This risk could be ameliorated by providing incentives to make Australia a more competitive destination for skilled mariners.

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 in its Interim Report 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.¹⁷

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 2024¹⁸. 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.¹⁹

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 2025.²⁰ 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.

¹⁷ *The National Defence – Defence Strategic Review, 2023, National Defence Statement 2023, p.8*

¹⁸ *The National Defence – Defence Strategic Review, 2023, National Defence Statement 2023, p.99*

¹⁹ *The National Defence – Defence Strategic Review, 2023, National Defence Statement 2023, p.34*

²⁰ *The National Defence – Defence Strategic Review, 2023, National Defence Statement 2023, p.108*

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.'²¹ 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 for the Henderson shipyard should be examined as a matter of urgency'²². 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

s33(a)(ii)



This was reinforced in the Defence Strategic Review: 'Defence should be the force of the last resort for domestic aid to the civil community, except in extreme circumstances.'²⁴ 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.'²⁵

The Taskforce acknowledges the Defence requirements and recognises 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.

²¹ *The National Defence – Defence Strategic Review, 2023, National Defence Statement 2023, p.107*

²² *The National Defence – Defence Strategic Review, 2023, National Defence Statement 2023, p.104*

²³ s33(a)(ii)

²⁴ *The National Defence – Defence Strategic Review, 2023, National Defence Statement 2023, p.109*

²⁵ *The National Defence – Defence Strategic Review, 2023, National Defence Statement 2023, p.110*

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. As the Taskforce noted in its Interim Report, 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. This measure is consistent with Interim Advice 1c of the Interim Report, which proposed that the strategic fleet could support broader strategic objectives including enhancing relationships with regional and Pacific neighbours.

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. ^{s33(a)(iii)}

^{s33(a)(iii)} Agreements might be reached with such 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. ^{s33(a)(iii)}

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 were 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.²⁶ 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.

Links to decarbonisation efforts and use of green fuels

The Government has committed to the following decarbonization 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 CO₂ 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.

²⁶ *The National Defence – Defence Strategic Review, 2023, National Defence Statement 2023, p.8*

- 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 includes 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.'²⁷

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 Minister asked the Taskforce to consider the role the strategic fleet could play in transporting cargo to Australia's external territories (Norfolk, Christmas and Cocos (Keeling) Islands). 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.

²⁷ *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'²⁸ 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.

²⁸ *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

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.

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Appendix A – Terms of Reference for the Strategic Fleet Taskforce

Australian Government announcement

The Government has announced it will establish a strategic fleet of up to 12 Australian-flagged and crewed vessels. The Government has committed to appointing a Taskforce that will provide independent advice to guide its decisions. The Taskforce will provide advice on the establishment of a strategic fleet of Australian-flagged and crewed vessels that 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.

Context

Maritime trade is essential to Australia's economic and social wellbeing. Shipping accounts for 99 per cent of the volume and around 80 per cent of the value of Australia's goods trade. Australia is the fifth largest user of shipping services in the world, predominantly the export of commodities such as iron ore, coal and liquefied natural gas. Australia is a much smaller user of container shipping - accounting for around 1 per cent of global trade - but it is critical for our import of goods including medicines, electronics, whitegoods and inputs to production. The container trade also supports exports such as agricultural products and manufactured goods.

Australia relies on foreign-flagged vessels to carry our maritime trade. In 2021, there were 26,400 ship arrivals at Australian ports by 6,170 unique foreign-flagged ships. This included 1,100 arrivals by fuel tankers – or around 3 arrivals a day. Reflecting the role of bulk commodities in our maritime trade, 69 per cent of unique ships that came to Australia were bulk carriers with container ships and oil tankers accounting for five per cent each.

Over the last 20 years, the number of vessels in the major Australian trading fleet (vessels over 2000 DWT) has decreased from 37 to 15.

Australia relies on a professional and highly-skilled maritime workforce to ensure our vital maritime trade operates safely and efficiently. Secure employment and skills development pathways are needed to ensure the next generation of Australian seafarers can develop and have the opportunity to perform critical roles such as harbour masters and marine pilots.

Maritime supply chains in Australia and globally have experienced significant disruption due to the COVID-19 pandemic, port congestion and other supply chain issues leading to delays in supply and increased shipping costs. These disruptions have highlighted the interconnectedness and complexity of global shipping supply chains and risks to Australia's economic sovereignty and national security.

Terms of Reference

To manage these risks the Taskforce will undertake an assessment of Australia's current and future shipping needs and maritime policy settings, including the role an Australian strategic fleet could play in the supply chain and in providing training opportunities. Identifying the strategic need first will help the Australian Government to understand what maritime and supply chain capabilities are required, and how a focused strategic fleet could be designed to best enable the Government to respond to future disruptions.

The Taskforce is expected to:

1. undertake an initial strategic assessment of:
 - a. Australia's current and future shipping freight needs

- b. the types of disruption that may occur, including natural disasters, in coastal and international shipping and how they would affect Australian industry and society, and
 - c. which of the identified freight needs the Government should position itself to influence and the level of control the Government could have with a strategic fleet of vessels.
2. Based on the findings of the initial strategic need's assessment, undertake an assessment to identify:
 - a. preferred composition of the proposed fleet (number of vessels, type, age and capabilities required);
 - b. types of cargo that could be moved;
 - c. industries likely to use the fleet;
 - d. potential commercial partners;
 - e. routes on which vessels could operate commercially;
 - f. costs associated with establishing and maintaining the fleet;
 - g. 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;
 - h. associated risks including economic viability, market distortion, trade risks and effect on onshore users of shipping and on other transport modes; and
 - i. opportunities for a fleet to contribute to other Australian Government priorities and initiatives such as:
 - responses to emergencies and natural disasters, including the disaster ready fund;
 - supporting Defence or national mobilisation requirements;
 - building a more secure and resilient Australia by deepening partnerships with regional neighbours;
 - enhancing critical supply chains including Defence material;
 - supporting industry development and manufacturing initiatives;
 - trade diversification; and
 - reducing carbon emissions and future fuels development.
3. examine methods to encourage shipowners to re-flag vessels and employ Australian seafarers to give the Australian Government the maritime capability it requires and provide advice on the likely effectiveness of each method;
4. identify any other maritime policy options outside of the strategic fleet that would provide the government with a direct ability to reduce supply chain risks;
5. provide an indicative impact assessment of the effect that establishing a fleet would have on the Australian shipping industry, Australian users of shipping, the operation of Defence commercial vessels, the economy and national security;
6. assess whether the current regulatory framework is fit for purpose to support establishment of a strategic fleet, and provide advice on where the regulatory environment may need to change including:
 - a. any adjustments to Australia's maritime taxation arrangements;
 - b. any adjustments to vessel registration and coastal shipping regulatory frameworks;
 - c. analysis of regulatory and cost implications for users of shipping, Australian vessels and foreign vessels;

- d. how any proposed changes would support the strategic needs identified in the initial strategic needs assessment; and
 - e. the regulatory arrangements needed to enable the Government to requisition and redeploy vessels in times of crisis.
7. identify opportunities to partner with states, territories or New Zealand on matters related to the work of the Taskforce.
 8. consider any other matters related to the Taskforce's objective.

The Taskforce will engage in broad stakeholder consultation to ensure a range of views are considered. The Taskforce will also commission industry expert advice as appropriate to ensure any recommendations are commercially viable and supported by data and analysis. Advice will also be sought to ensure recommendations comply with Australia's international obligations. The Taskforce should consider the potential to demonstrate options through undertaking pilots or adopting a phased introduction.

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

Out of Scope

The Taskforce will not:

1. compile a list of goods it considers critical to Australia, rather it will provide information on the capacity/capability needed to allow the movement of types of cargo that are critical
2. draft changes to specific pieces of legislation, rather it will advise on broader reforms needed
3. provide advice on specific existing vessels that could be chartered or otherwise engaged.

Governance

The Taskforce will report to the Australian Government through the Minister for Infrastructure, Transport, Regional Development and Local Government. The Taskforce is an advisory body only.

The Department of Infrastructure, Transport, Regional Development, Communications and the Arts will provide the secretariat for the Taskforce. The secretariat will be supplemented by officers from other Commonwealth agencies. The secretariat will also obtain internal and external expert commercial and legal advice and data analysis as appropriate.

Membership

The Taskforce will be Chaired by Mr John Mullen. The Taskforce includes representatives from the Australian Government, shipping industry, major charterers, unions and Australian business.

The membership of the Taskforce includes: Dr Sarah Ryan, Mr Paddy Crumlin, Ms Angela Gillham and Major-General Jason Walk.

Timeframes

The Taskforce will provide an interim report to the Australian Government by 30 December 2022 with findings from the initial strategic assessment as described in item 1 of the Terms of Reference. The interim report should include advice on any early actions it has identified that the Australian Government could take consistent with the full Terms of Reference.

The Taskforce will provide its final report to the Australian Government by 30 June 2023.

Appendix B – Taskforce meeting schedule

| Meeting Details | Taskforce Member Attendance |
|--|--|
| 2022 meetings | |
| Taskforce Establishment Meeting Date/Time: 20 October 2022 (10:00am-11:00am) Location: In Person, Melbourne Commonwealth Parliament Offices | Mr John Mullen |
| Taskforce Meeting 1 Date/Time: 24 October 2022 (8:00am-10:30am) Location: Virtual | Mr John Mullen - Chair Dr Sarah Ryan - Member Ms Angela Gillham - Member Maj General Jason Walk - Member Mr Paddy Crumlin - Member |
| Taskforce Meeting 2 Date/Time: 9 November 2022 (9:00am-3:00pm) Location: In Person & Virtual, Sydney (Telstra Office) | Mr John Mullen - Chair Dr Sarah Ryan – Member (Virtual) Ms Angela Gillham - Member Mr Paddy Crumlin - Member |
| Taskforce Meeting 3 Date/Time: 22 November 2022 (1:00pm-4:00pm) Location: Virtual | Mr John Mullen - Chair Dr Sarah Ryan - Member Ms Angela Gillham - Member Major General Jason Walk - Member Mr Paddy Crumlin - Member |
| Taskforce Meeting 4 Date/Time: 9 December 2022 (1:00pm-3:00pm) Location: Virtual | Mr John Mullen - Chair Ms Angela Gillham - Member Major General Jason Walk - Member Mr Paddy Crumlin - Member |
| Taskforce Meeting 5 Date/Time: 19 December 2022 (11:00am-2:00pm) Location: In Person & Virtual, Sydney (Telstra Office) | Mr John Mullen - Chair (Virtual) Dr Sarah Ryan – Member (Virtual) Ms Angela Gillham - Member Major General Jason Walk - Member Mr Paddy Crumlin - Member |
| Taskforce Meeting 6 Date/Time: 24 January 2023 (9:00am-10:45am) Location: Virtual | Mr John Mullen - Chair Dr Sarah Ryan - Member Ms Angela Gillham - Member Major General Jason Walk - Member Mr Paddy Crumlin - Member |
| 2023 meetings | |
| Taskforce meeting 7 Date/Time: 8 February 2023 (2:00pm-4:45pm) Location: Virtual | Mr John Mullen - Chair Dr Sarah Ryan – Member Ms Angela Gillham - Member Major General Jason Walk - Member Mr Paddy Crumlin – Member |
| Taskforce meeting 8 Date/Time: 2 March 2023 (9:00am-12:00pm) Location: Virtual | Mr John Mullen - Chair Dr Sarah Ryan – Member Ms Angela Gillham - Member Major General Jason Walk - Member Mr Paddy Crumlin - Member |

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| Taskforce meeting 9 Date/Time: 28 March 2023 (2:00pm-4:45pm) Location: Virtual | Dr Sarah Ryan – Member (Acting Chair) Ms Angela Gillham - Member Major General Jason Walk - Member Mr Paddy Crumlin - Member |
| Taskforce meeting 10 Date/Time: 11 April 2023 (8:00am-10:30am) Location: Virtual | Mr John Mullen - Chair Ms Angela Gillham - Member Major General Jason Walk - Member Mr Paddy Crumlin – Member |
| Taskforce meeting 11 Date/Time: 24 April 2023 (9:00am-10:30am) Location: Virtual | Mr John Mullen - Chair Dr Sarah Ryan - Member Ms Angela Gillham - Member Major General Jason Walk - Member Mr Paddy Crumlin - Member |
| Taskforce meeting 12 Date/Time: 12 May 2023 (7:30am-8:30am) Location: Virtual | Mr John Mullen - Chair Dr Sarah Ryan - Member Ms Angela Gillham - Member Major General Jason Walk - Member Mr Paddy Crumlin - Member |
| Taskforce meeting 13 Date/Time: 19 May 2023 (9:00am-12:45pm) Location: Virtual | Mr John Mullen - Chair Dr Sarah Ryan - Member Ms Angela Gillham - Member Major General Jason Walk - Member Mr Paddy Crumlin - Member |
| Taskforce meeting 14 Date/Time: 1 June 2023 (9:00am-1:00pm) Location: Virtual | Mr John Mullen - Chair Dr Sarah Ryan - Member Ms Angela Gillham - Member Major General Jason Walk - Member Mr Paddy Crumlin - Member |
| Taskforce meeting 15 Date/Time: 13 June 2023 (9:00am-1:00pm) Location: Virtual | Mr John Mullen - Chair Dr Sarah Ryan - Member Ms Angela Gillham - Member Mr Paddy Crumlin - Member |
| Taskforce meeting 16 Date/Time: 19 June 2023 (9:00am-10:30am) Location: Virtual | Mr John Mullen - Chair Dr Sarah Ryan - Member Ms Angela Gillham - Member Major General Jason Walk - Member Mr Paddy Crumlin - Member |
| Taskforce meeting 17 Date/Time: 23 June 2023 (9:00am-10:30am) Location: Virtual | Mr John Mullen - Chair Dr Sarah Ryan - Member Ms Angela Gillham - Member Mr Paddy Crumlin - Member |

Appendix C – Interim report



Strategic Fleet Taskforce

Interim Report – Phase One

December 2022



Released under the FOI Act 1982 by the Minister for Infrastructure,
Transport, Regional Development and Local Government



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Introduction

The Strategic Fleet Taskforce presents this interim report to the Australian Government. This report identifies the strategic needs the Australian strategic fleet could deliver, and provides advice to Government including on potential early actions.

Background

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At the core of this is the establishment of a Strategic Fleet, made up of up to 12 Australian-flagged and crewed vessels that are expected to be privately-owned, commercially operated but available for requisition by the Defence Forces during times of national need such as natural disaster or times of conflict. The Government has indicated it will not consider buying, or crewing and operating vessels in the strategic fleet itself.

On 20 October 2022, the Minister for Infrastructure, Transport, Regional Development and Local Government, the Hon Catherine King MP, announced the appointment of the Strategic Fleet Taskforce (the Taskforce) and its Terms of Reference.

The Government has appointed this Taskforce to provide advice to guide the Government on how to establish Australia's strategic fleet as quickly as possible. The Taskforce has also been asked to provide advice on what legislative or regulatory reforms may be necessary to support the fleet.

The Taskforce members are:

- Mr John Mullen (Chair);
- Ms Angela Gillham – Chief Executive Officer, Maritime Industry Australia Limited;
- Dr Sarah Ryan – Non-Executive Director, Woodside Energy et al.;
- Mr Paddy Crumlin – National Secretary, Maritime Union of Australia; and
- Major-General Jason Walk – Commander Joint Logistics, Department of Defence.

The Terms of Reference set out a two-phased approach for the Taskforce to provide advice to Government. This report represents the outcome of the Taskforce's work undertaken through Phase One and has been agreed to by all members of the Taskforce.

Phase One of the Terms of Reference

The first phase required the Taskforce to report on high-level strategic objectives that the fleet could deliver. This advice was due by the end of 2022. As required by the Terms of Reference, the Taskforce has undertaken an initial strategic assessment of:

- a. Australia's current and future shipping freight needs
- b. the types of disruption that may occur, including natural disasters, in coastal and international shipping and how they would affect Australian industry and society, and
- c. which of the identified freight needs the Government should position itself to influence and the level of control the Government could have with a strategic fleet of vessels.

In developing its interim report, the Taskforce has:

- met on five occasions:
 - 24 October 2022
 - 9 November 2022
 - 22 November 2022
 - 9 December 2022, and
 - 19 December 2022;
- engaged PwC through the Department of Infrastructure, Transport, Regional Development, Communications and the Arts (the Department) to conduct research and analysis to inform the discussion, analysis and findings;
- undertaken a broad stakeholder consultation process to obtain views on what identified freight needs the Government should position itself to influence, and the level of control the Government could have with a strategic fleet of vessels by:
 - releasing a public discussion paper calling for stakeholder submissions; and
 - undertaking targeted consultation with key stakeholders.

The Terms of Reference provide that during Phase Two, the Taskforce is required to identify options for the composition of the fleet, potential commercial partners, opportunities for the fleet to contribute to other Government priorities and initiatives and assess whether the current regulatory framework is fit for purpose to support establishment of the strategic fleet.

The Taskforce has also considered the broader issues specified and inferred in the Terms of Reference and the next steps needed to progress its work during Phase Two, and have reflected these in this report.

The Taskforce will provide its final report to the Government by 30 June 2023.

Stakeholder Consultation

The Taskforce undertook a combination of broad and targeted stakeholder consultation to help inform development of the interim report findings and gain a deeper understanding of stakeholder views about possible strategic needs the fleet could deliver.

Overview

The Terms of Reference require the Taskforce to undertake broad stakeholder consultation to ensure a range of views are considered to inform its advice to the Government. Wide consultation as part of Phase One assisted the Taskforce to gain a deeper understanding of stakeholder views on the strategic purpose the fleet could deliver, where those views differ and helped to shape options and determine which options have the greatest efficacy in delivering the Government's objectives.

The Taskforce employed a combination of consultation methods to achieve its objectives. A Discussion Paper was released to meet broad consultation obligations. Targeted consultation sessions consisted of in-depth discussions with key stakeholders and was conducted through a mix of in-person and virtual meetings.

Further detail about the consultation process, including the organisations the Taskforce met with and those who provided submissions in response to the Taskforce's discussion paper are provided at [Appendix A](#). A summary of the key themes identified in submissions to the discussion paper and through targeted consultation is provided at [Appendix B](#).

Discussion paper

A discussion paper seeking stakeholder views on what strategic need the fleet could deliver was publicly released for consultation on 16 November, with submissions initially closing on Wednesday 30 November 2022. The deadline to provide a submission was subsequently extended to Wednesday 7 December 2022 upon stakeholder request.

Through this process, the Taskforce received a total of 59 responses to its discussion paper by Wednesday 7 December 2022.

Submissions included two from academia or consultancies; four from Australian Government or state and territory government agencies or bodies; 16 from peak bodies; 14 from shipping or logistics services providers; four from onshore and fuel/energy users of shipping; one from port authorities; one from the rail industry; three from unions; and 14 from those writing on an individual basis.

Targeted consultation

The Taskforce undertook four separate and targeted consultation sessions on Monday 28 November 2022 and Thursday 1 December 2022 with key stakeholder groups that held similar expertise or shared interests.

The first session was with the maritime unions, the second with shipping providers, the third with onshore users of shipping, and the fourth with fuel and energy users of shipping.

These sessions engaged the Taskforce with key stakeholders, allowed participants to ask questions and answer questions, and enabled in-depth discussions about the strategic purpose the fleet could deliver.

Themes and issued raised

Key issues raised during stakeholder consultation included:

- The importance of investment in Australian seafarer skills and training to the success of the strategic fleet;
- That certainty was needed for shipping providers to invest in Australian-flagged and crewed vessels, and that significant reduction in the higher operating costs associated with Australian vessels would need to be achieved for industry to invest in Australian shipping;
- That Australian maritime regulatory and taxation arrangements when compared to those of other maritime nations, put the Australian maritime sector at a disadvantage and would need to change to increase competitiveness;
- If possible, the measures adopted should be long lasting and over time encourage the inclusion of more than just the 12 initial ships on the Australian register;
- While stakeholders were concerned around disruption to supply chains, the level of influence of a strategic fleet could provide would depend on the type of trade affected and scale of disruption;
- The energy sector in particular, feels that 12 ships alone will not make a difference to Australia's energy supply in times of disruption, and therefore other measures such as government across the whole sector would be more effective. Limited smaller coastal shipping capacity, however, could be of value; and
- That a strategic fleet should be consistent with or contribute to the Government's commitment to reduce greenhouse gas emissions.

These will be further examined and tested during Phase Two of the Taskforce's work.

Additional detail is on stakeholder views identified during consultation provided in **Appendix B**.

Phase Two consultation

As part of Phase Two, the Taskforce will undertake another round of consultation to examine:

1. the proposed fleet, cargo movements, users and potential providers to meet the strategic need as well as identifying other opportunities (such as regional partnerships and reducing greenhouse gas emissions);
2. methods that would motivate ship owners to reflag to Australian and employ Australian crew;
3. the effect establishing a strategic fleet would have on the Australian shipping industry, Australian users of shipping, the economy and national security; and
4. whether the current regulatory framework is fit for purpose and provide advice on where change is needed.

Current shipping industry

The Taskforce was provided information on the current international and domestic shipping industry and this has been used to inform its deliberations in addressing Phase One of the Terms of Reference.

Introduction

Understanding Australia's current and future shipping needs will assist with determining which of the identified freight needs the Government should position itself to influence.

The analysis in this section has been separated into the current international and domestic shipping task, with the liquid fuel task being separately identified given the strategic role of the fuel supply in keeping society and the economy moving.

This analysis provides a picture of Australia's shipping market.

The international shipping market

Shipping is truly international, with aspects of the industry – vessel construction, ownership, registration, cargo origin/destination, and vessel recycling - spread around the world.

In 2019, 93 per cent of global shipbuilding by tonnage was located in China, the Republic of Korea, and Japan. In 2020, the global commercial cargo fleet reached 2.1 billion deadweight tonnes, with bulk carriers constituting 43 per cent of total tonnage, oil tankers 29 per cent, and general cargo 4 per cent.

Five ship-owning economies accounted for ownership of 52 per cent of the global fleet – with Greece holding a market share of 18 per cent; China 11 per cent; Japan 11 per cent; Singapore 7 per cent; and Hong Kong 5 per cent.

Vessel registration is concentrated in a handful of countries, with Panama (16.1 per cent), Liberia (14.1 per cent), the Marshall Islands (12.8 per cent), Hong Kong (9.6 per cent), and Singapore (6.4 per cent) providing a combined 59 per cent of registration of the global fleet by deadweight tonnage.

11 billion tonnes of cargo were carried by sea freight in 2021, nearly three-quarters of which was dry cargoes – bulk and container. World container port throughput equaled 815 million twenty-foot equivalent units (TEU) of containers in 2020, and is heavily concentrated in Asia. China handled around 250 million TEU in 2020, with the United States in second-place handling just over 50 million. Asia is host to the top 10 container ports by TEU handled, with Singapore the most significant handling just under 45 million TEU in 2020.

Approximately 1.9 million seafarers work globally, with seafarers from the Philippines, Russia, Indonesia, China, and India making up around 44 per cent of the global seafarer workforce.

Shipping economics

Shipping is characterised by a number of market cycles, that range in duration from decades to seasonal. Within cycles stages progress from a trough – where shipping capacity is at a surplus, freight rates are low (at times below operating costs), rates of newbuilding declines and vessels are scrapped or sold by owners. The next stage – recovery – is characterised by supply and demand moving towards equilibrium, and freight rates above vessel operating costs. The next stage – peak – is characterised by available supply being fully engaged, freight rates multiples above operating costs, vessels destined for scrap brought back into service where appropriate. The final stage – collapse – sees supply overtake demand, with vessels ordered at the market peak entering the market and increasing capacity, and freight rates falling significantly.

A recent example of such a shipping market cycle can be seen in the global container shipping market since the beginning of the COVID-19 pandemic, which saw an initial collapse of demand, with vessels withdrawn or sold for scrap, and freight rates low. From mid-2020 demand increased and vessel and container supply remained constrained, with freight rates and vessel utilisation consequently increasing. Global composite freight rates for 40-foot containers reached a peak of \$USD 10,377 in September 2021, before falling 79% to reach \$2,139 for the same container in December 2022.

Shipping is characterised by high initial capital costs, with the cost of new build cargo vessels measured in the tens of millions, with up to three years between when vessels are ordered and delivery. Shipping also has a number of annual costs vessel owners must manage including operating, voyage and cargo-handling costs. Operating costs can depend on crew complement, wages, stores, maintenance, and insurance; voyage costs on fuel consumption and fuel price, port charges; and cargo-handling costs on cargo type, stevedoring and other costs. Shipowners also have costs associated with maintaining and financing vessels, include interest on loans, survey costs, and regulatory costs. While newer ships typically have lower operating costs than ageing vessels due to smaller crews, fuel efficiency, and greater reliability, this can be offset by potentially higher upfront capital costs. Given the effective life of vessel can extend to 30 years, shipowners seek to maximise revenue and limit operating costs to ensure a commercial return throughout multiple market cycles.

Australia's International Shipping Task

Shipping is critical to Australia's social and economic well-being. Shipping moves 99 per cent of Australia's goods trades by volume, and around 79 per cent by value. In 2020-21, 1.613 billion tonnes of imports and exports were moved by sea, worth \$575 billion in total.

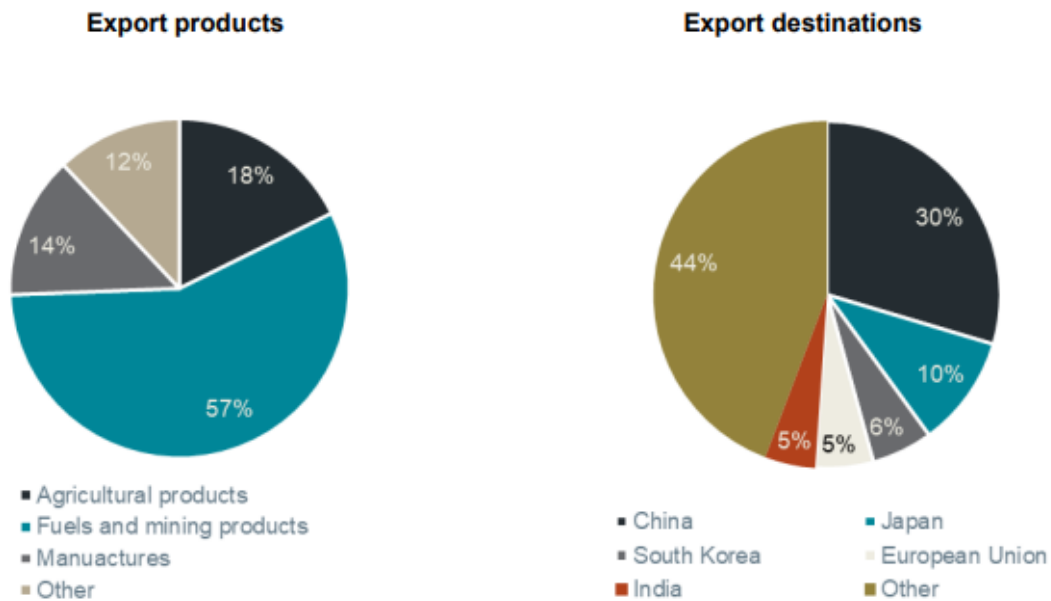
In 2021, there were 26,400 foreign-flagged vessel arrivals in Australia, by 6,170 unique foreign vessels.

Australia is the world's fifth largest user of shipping – predominantly moving export commodities such as iron ore, coal, and liquefied natural gas (LNG).

- Exports are 87.7 per cent of the total volume of sea freight handled in Australia.
- Iron ore exported from Port Dampier and Port Hedland accounts for 77 per cent of Australia's total iron ore exports, and 42 per cent of the world's total seaborne iron ore exports.

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

Share of Australian exports and their destinations by value



Source: HoustonKemp Economists, January 2019, *Containerised trade trends and implications for Australian ports*.

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 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 position off this major route affects the availability of container shipping services as does Australia’s comparatively small share of the global container market. A significant amount of Australian container imports and exports transition through transshipment hubs such as Singapore.

While Australia’s container trade is worth approximately \$350 billion – reflecting the comparatively high-value products transported via container - Australia is a small player in the global container market with 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.

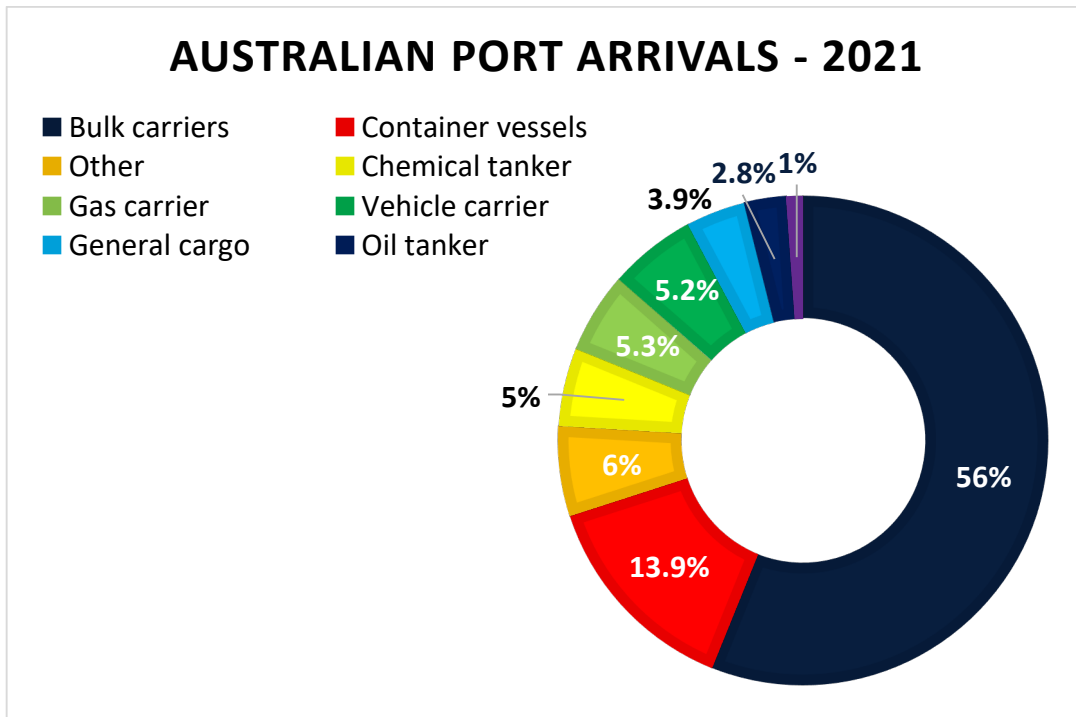
Vessel Types

Australia's shipping task is performed by a variety of vessel types, including:

- *Dry Bulk Carriers*: designed to carry large quantities of non-packed or non-unitised commodities such as iron ore, coal, and grains;
- *Liquid Bulk Carriers*: designed to carry large quantities of liquid commodities such as crude oil and condensate, refined petroleum, and liquified natural gas (LNG);
- *Container Ships*: vessels that carry cargo in standardised containers that can also be moved on trucks and trains;
- *General Cargo Ships*: vessels designed to transport cargo not suitable for a container such as irregular sized or loose cargo;
- *Roll On-Roll Off (RORO) Vessels*: designed to carry wheeled cargo, such as cars, trucks, trailers and machines;

In 2021, bulk carriers accounted for 56 per cent of 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 account for 2.8 per cent.

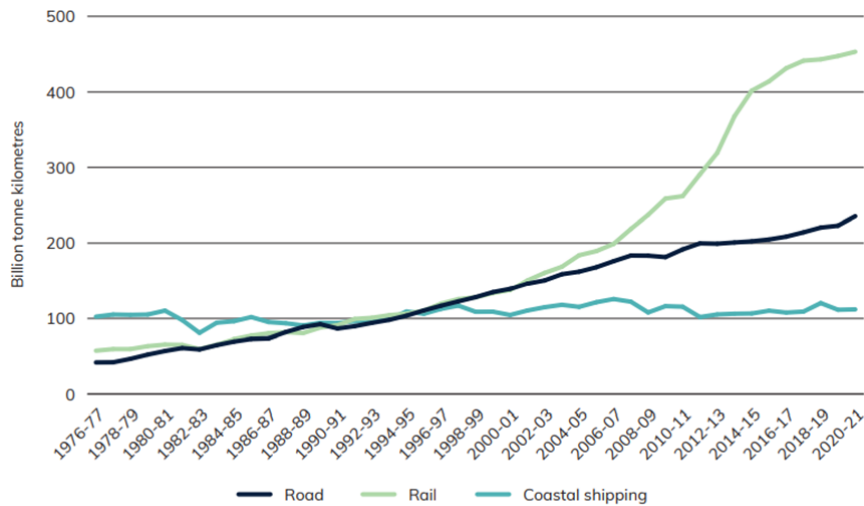
The following graph shows port arrivals by vessel type:



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. In the same period, there was a total 54.0 million tonnes of coastal freight loaded.

Australian domestic freight task



Source: BITRE Estimates, 2021

Domestic Fleet

Australia's trading fleet is broken into the major trading fleet (vessels over 2,000 deadweight tonnes) and minor trading fleet (vessels under 2,000 deadweight tonnes).

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* (Coastal Trading Act) that operate in Australia's coastal trade. These vessels engage in various trades between Australian ports and are fully engaged on defined routes, with the majority of these vessels servicing Bass Strait. There are 25 General Licence vessels under 2,000 DWT, which include expedition cruise vessels, barges etc.

On international trades, there are 4 Australian-registered and crewed LNG carriers operated by Shell Tankers Australia, that exclusively carry LNG between Western Australia and Japan.

Australian cargo owners utilise foreign-flagged vessels to carry international and domestic cargoes. Australian organisations use Temporary Licences under the Coastal Trading Act to use foreign-flagged vessels to carry domestic cargoes between Australian ports. 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%) of the 2,309 total voyages performed in 2021. These vessels in this highly-active foreign fleet include container vessels (noting that these appear more active on the coast due to load dates appearing at each metropolitan port vessels visit on a continuing international voyage); dry bulk carriers; RORO vessels; and LPG tankers. 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.

While the majority of foreign-flagged vessels used to carry domestic cargo under Temporary Licence do so on a handful of occasions, some foreign-flagged vessels operating under Temporary Licence are used for high-frequency coastal operations. Vessels operating under Temporary Licence carry approximately 75 % of Australia's licensed coastal trade, indicating that there may be opportunities where there are high-frequency coastal operations conducted by foreign vessels for these to instead commercially sustain Australian vessels.

Consistent with item 2e of the Terms of Reference, in Phase Two the Taskforce will undertake an assessment to identify routes on which Australian vessels could operate commercially, with the Taskforce also to advise of the role of the coastal trading regulatory framework in supporting cargo to be carried by Australian vessels.

The Taskforce notes the work commenced by the Queensland and Western Australian governments in examining and enhancing coastal shipping services. The Queensland Government has committed \$21 million in funding to the Backing Queensland Maritime Jobs initiative grants program, which intends to revitalise and strengthen coastal shipping and create ongoing maritime jobs. The grant programs were established following a parliamentary inquiry into Queensland's intrastate shipping, with the grant programs providing financial assistance through three grant programs – the Coastal Shipping Grant Program; the Maritime Employment Grant Program; and the Maritime Training Grant Program.

The Western Australian (WA) Government have established a Shipping and Supply Chain Taskforce, chaired by Ms Jessica Stojkovski MLA, and Mr Kyle McGinn MLC, which is investigating potential improvements to coastal shipping services, maritime training, and opportunities to respond better to supply chain disruptions and enhance logistics and supply chain coordination across WA ports. The WA Taskforce provided a submission in reply to the Strategic Fleet Taskforce's discussion paper that provided context for their work, and noted several areas of overlap between both Taskforces. The WA Taskforce is expected to release a discussion paper in the near future, and will provide a report to the WA Government by March 2023.

The Taskforce will follow the work of the Queensland grants programs and WA Taskforce, and provide further information on these in its final report to Government.

Major coastal shipping cargoes

Coastal trading tonnages are dominated by the movement of bulk cargo. Domestic cargo shipped interstate is required to be moved under licence by the Coastal Trading Act.

Some intrastate cargoes also are moved under licence, but are not required to be by the Act. Intrastate coastal shipping is a significant proportion of Australia's coastal trade, with the shipping of bauxite extracted in Weipa, Queensland and shipped to Gladstone for refining by far the largest intrastate coastal trade by tonnage. In 2018-19, 12.7 million tonnes was moved between Weipa and Gladstone - 23.5% of the 54.0 million tonnes loaded in that period.

The most significant cargoes (by volume) that are moved by Australian General Licence vessels are predominantly the dry bulk cargoes of magnetite (iron ore), limestone, and cement moved by specialist dry bulk vessels; and RORO and containerised cargo moved on RORO General Licence vessels operating Bass Strait routes between Tasmania and Victoria.

Top 5 cargoes moved by Australian vessels (2020-21)

| Cargo | Volume moved (in metric tonnes) |
|---|--|
| Dry bulk – Magnetite | 7,962,000 MT |
| Dry bulk – Limestone | 1,408,000 MT |
| Dry bulk – Cement | 1,144,000 MT |
| General Cargo – Roll-on Roll-off | 451,529 TEU |
| General cargo – 20ft container | 131,927 TEU |

The most significant cargoes (by volume) that are moved by foreign vessels operating under Temporary Licence are dry bulk cargoes including iron ore, cement, and alumina moved via dry bulk carriers; as well as refined petroleum moved by product tankers between Australian refineries and import terminals, and Australian end users.

Top 5 cargoes moved by foreign vessels under Temporary Licence (2020-21)

| Cargo | Volume moved (in metric tonnes) |
|------------------------------------|--|
| Dry bulk – other | 4,113,187 MT |
| Iron Ore | 3,327,664 MT |
| Petroleum – petroleum clean | 2,449,922 MT |
| Cement | 2,168,495 MT |
| Alumina | 1,971,983 MT |

Liquid Fuel Task

In recent decades, Australia has decreased domestic production of refined petroleum, with refineries converted into terminals for fuel imports. 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 ML of refined petroleum products worth \$41.2 billion imported in 2021-22. Australia's fuel imports are carried by 750-1000 foreign vessels per year (2-3 deliveries per day), with crude oil and refined product sourced from a variety of countries

- It takes around 2 weeks for liquid fuel to arrive by tanker from South East Asia, 2-3 weeks from North Asia, and 3-4 weeks from the Middle East.

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 3,474 MT of liquid fuels between Australian ports. Consistent with item 2e of the Terms of Reference, in Phase Two the Taskforce will further examine the coastal trade in liquid fuels to determine how the vessel scheduling and occupancy of this trade works, and what opportunities there may be for Australian strategic fleet vessels to participate in the liquid fuel supply chain.

Australia's maritime liquid fuel transport capability

There are no Australian-flagged petroleum or crude oil carriers, nor any liquefied petroleum gas (LPG) tankers in Australia's commercial fleet. Australia's commercial fleet once included several tankers transporting crude oil extracted from Australian petroleum fields to domestic refineries for processing into refined petroleum.

Petroleum tankers that import fuel to Australia are typically Panamax/LR1 size (60,000-80,000 DWT) or Aframax/LR2 (80,000-120,000 DWT).

- Aframax tankers are capable of carrying 500,000-800,000 barrels of oil which equates to approximately one-half to three-quarters of Australia's normal daily fuel use.

The capability required to transport liquid fuel around Australia varies depending on the origin and destination of the cargo. Transporting fuel between Viva Energy's refinery in Geelong to Sydney can utilise a much larger vessel compared with that needed to transport fuel to Cairns – this is because of differences in shipping channel depth, port infrastructure, consumption rates, and shoreside facilities such as fuel storage tanks.

Future shipping needs

The Taskforce was provided with information on future shipping needs, to determine whether this would affect consideration of strategic need, as outlined in Phase One of the Terms of Reference.

Overview

Australia's future shipping task by tonnage is expected to continue to be dominated by the bulk export of commodities. Transition to renewable energy sources may have a significant effect on Australia's future maritime sector. This could include through development of offshore wind energy, offshore carbon and storage infrastructure, which require maritime assets to construct and maintain; and development of green hydrogen and ammonia industries, which may involve a significant export or coastal shipping task.

The future characteristics of Australia's maritime sector will continue to be strongly influenced by developments in international shipping, such as continued growth in the global container market, increasing average container vessel size, automation, and transition to use and bunkering of low or zero carbon fuels, which will have consequences for operations across the maritime logistics sector. Depending on future industry development and regulatory settings, there may be opportunities for Australian vessels to replace foreign ships or to win market share from road and rail. The Taskforce will explore these trends and seek to understand their implications for Australia's shipping task in more detail in Phase Two.

Australia's future shipping needs – containers

Global containerised trade grew at an average rate of 8.1 per cent per annum between 1980 and 2018. Global container trade is expected to continue growing, albeit at a slower rate consistent with overall seaborne trade growth of around 2.8 per cent per annum (UNACTD Review of Maritime Transport 2018).

Australia's major container ports will continue to increase in throughput, with the Port of Melbourne anticipating growth in container trade of 3.5 per cent per annum out to 2050.

Australia's future shipping needs – dry bulk

Australia's bulk commodities exports are projected to increase out to 2050. Australia's iron ore exports closely track construction in the Chinese economy and need for steel.

Internal research commissioned for the Taskforce indicates that major Australian iron ore exporting ports are expected to increase export volumes out to 2050, with the Port Hedland, Western Australia to Ningbo, China route expected to increase from 345 million tonnes in 2021 to 470 million tonnes in 2050.

Australia's future shipping needs – liquid fuels

Australia's future liquid fuel shipping needs will be affected by progress towards decarbonisation and the transition of Australia's vehicle fleet to electrification. Liquid fuels are expected to be a critical part of Australia's energy mix into the future, particularly for sectors where transition to electrification or alternate fuels are challenging, such as aviation.

Future domestic freight task – coastal shipping

Australia's freight task is growing and changing. According to projections provided by the Bureau of Infrastructure and Transport Research Economics (BITRE), the volume of freight carried is expected to grow by over 35 per cent between 2018 and 2040, an increase of 270 billion tonnes (bringing the total volume to just over 1,000 billion tonne kilometres). Much of this projected growth is expected to be absorbed by road and rail transport, with coastal shipping expected to carry similar tonnage of freight as it does currently.

BITRE projections indicate that under current conditions Australia's total coastal trade is expected to remain at current levels – approximately 110 billion tonne-kilometres per annum, out to 2050. This would represent a relative decline in the percentage of Australia's freight task carried by coastal shipping, with the growth in the overall freight task picked up by road and rail transport.

Economy-wide changes such as declines in domestic petroleum refining and steel manufacturing and very significant growth in rail freight movement of iron ore from mines to export ports have affected the volumes and relative share of freight moved by coastal shipping. Australian coastal freight by tonnage is dominated by four commodities: bauxite, iron ore, crude oil, and refined petroleum. Only a small proportion of overall coastal freight by tonnage is contested with other modes – largely the movement of containers between capital cities. Projections of the coastal shipping task may change significantly with the development of new industries with coastal shipping freight needs.

In Phase Two the Taskforce will examine to what extent the relative decline of coastal trading as a share of the freight task has been driven by competition between transport modes; the components of the freight task undertaken by coastal shipping growing more slowly than other components of the freight task; and the competitive advantages enjoyed by foreign vessels engaged in coastal trading.

Disruption events

The Taskforce was asked to assess the types of disruption that may occur that would affect Australia's international and coastal shipping, and how they would affect Australian industry and society.

Overview

The Taskforce recognises secure and stable supply chains are important to the effective operation of any nation's economy. Global supply chains are becoming more complex due to the increasing technology complexity and connectivity of the modern world. This means that increasingly complex supply chains can be affected by local, regional or global disruptions, which can interrupt the normal flow and distribution of goods.

The scale and consequence of supply chain disruptions can vary - they can be local yet catastrophic, or global yet minor. Australia's supply chains have been affected by several disruptions in recent years, which have differed in scale and consequence, from separate flood events in 2022, which temporarily halted operations at the Port of Brisbane, and cut major freight routes such as the east-west Trans-Australian Railway for several weeks; to the 2019-20 bushfires; to global disruptions such as the COVID-19 pandemic.

These events disrupted supply chains, isolated communities and in some cases left industry scrambling for solutions, highlighting the need for resilience in managing these increasingly frequent disruption events.

Disruption Events

Natural disasters

Natural disasters can affect the usual transit of goods and the transport of supplies into disaster-affected areas. Natural disasters can damage or destroy critical transport infrastructure, leaving communities isolated and unable to receive critical emergency relief. This risk is amplified by the geographical size of Australia, and the large distances essential supplies often need to travel to reach disaster areas.

Australia has been affected by several natural disasters in recent years which have limited or cut-off freight connections. The 2019-20 bushfires cut overland access to the Victorian coastal township of Mallacoota for over a month. Essential supplies, such as fuel, generators and water, were delivered by sea, initially by the *Far Senator* and *Far Saracen*, Norwegian-flagged supply vessels normally servicing gas and oil platforms. *HMAS Choules*, a Royal Australian Navy (RAN) landing ship, joined later, delivering additional supplies and evacuating residents.

In January 2022, severe flooding in South Australia cut off freight access between the eastern states and Western Australia, with the Trans-Australian rail freight corridor severely damaged.

A temporary exemption from the licensing requirements of the *Coastal Trading (Revitalising Australian Shipping) Act 2012* enabled international shipping providers to transport some freight by coastal shipping that was originally intended for transport by road or rail. Approximately 5000 TEU were moved via sea over four months under this exemption, compared to the regular weekly volume moved via rail of approximately 10,000 TEU.

Australia's near-region neighbours, including in the Pacific Islands, are also vulnerable to natural disasters such as tropical cyclones, earthquakes and tsunamis. Pacific island nations are particularly exposed to supply chain disruptions – with the United Nations Conference on Trade and Development's Shipping Liner Connectivity Index indicating that many Pacific nations have the lowest level connection to global container shipping, receiving limited or infrequent shipping services, often with low capacity. Disruptions have significant implications for the food security of Pacific nations, which often have limited arable land and often rely on shipped imports for a range of staple food products.

The 2022 Tonga volcano eruption and tsunami highlighted the fragility of Pacific supply chains, with Australia providing emergency relief to via Australian Defence Force assets. Natural disasters will continue to disrupt Australian and Pacific supply chains in the future, with climate change increasing the frequency and severity of bushfires, floods and cyclones.

Disruption to routes or hubs

Shipping to Australia can be affected by disruption to shipping lanes or to regional hub ports. For example, the grounding of the *Evergiven* in the Suez Canal blocked the shipping lane for six days and disrupted global maritime trade while vessels queued in the Mediterranean or sailed around Africa, before the vessel was extracted. While a short-term disruption may be able to be worked around or may have limited consequences, a protracted disruption could affect a range of shipping and cargoes, particularly our containerised imports and exports.

Australia's containerised trade (as measured in TEU exchanged at Australia's major container ports) trends towards full container imports - with 4.130 million TEU exchanged in 2020-21, compared to 2.119 million full container exports. The Port of Singapore is the world's largest transshipment hub and fuel bunkering location, and is one of the most-connected locations for global container shipping, with many of our containerised goods transhipped through Singapore. By tonnage, China is the source of 18.5% of our maritime imports, primarily containerised goods. Disruption to the regional chokepoints near Singapore such as the Straits of Malacca, or to the South China Sea would affect global maritime trade patterns and access and limit Australia's ability to receive key containerised imports.

The Taskforce consulted with the Office of Supply Chain Resilience (OSCR) within the Department of Industry, Science and Resources, who work to identify and address disruption risk to Australia's supply chains for critical goods. Analysis conducted by the Department indicates that the majority of critical goods OSCR has identified are transported via containerised sea freight, with some others such as certain pharmaceuticals, personnel protective equipment (PPE), and agricultural chemicals transported via air freight and potentially chemical tankers respectively. This reinforces the potential impact of route or hub disruptions on Australia's economic and social well-being.

Disruption to liquid fuel supply chains

The Taskforce recognises that Australia's liquid fuel supply is of great importance and addressing fuel supply will be critical, whatever the disruption event. Consultation reinforced the critical role of fuel supply. Australia relies on imports of liquid fuels to supply energy and power our transport and logistics, agriculture, resources sectors, as well as supply the Australian Defence Force with the fuels required to sustain operations. While the uptake of alternative fuels and vehicle electrification technologies is increasing, hydrocarbon liquid fuels will continue playing an important role in Australia's energy mix into the 2030s. Diesel, aviation gasoline (avgas), jet fuel, and petroleum-based lubricants in particular are expected to be critical inputs into the foreseeable future, and ensuring a resilient supply chain for these products will help build national resilience.

Disruption to the international or domestic trade of liquid fuels would negatively affect Australia's economy and population, particularly in the short-term. A reduction in domestically available refined fuels would see prices for end-users increase as supply constricts. Logistics companies and users of those companies would also be affected as freight transport costs increase as a result of increased fuel costs.

Australia depends on imports for around 90 per cent of our annual refined petroleum needs, with 42,250 ML of refined petroleum products worth \$41.2 billion imported in 2021-22. Australia's remaining refineries at Geelong, Victoria and Lytton, Queensland primarily draw from imported crude oil for their refined petroleum production; and Australia relies heavily on imported refined petroleum to supply the fuel our refineries cannot.

Australia relies on foreign-flagged vessels to transport crude oil and refined petroleum. As discussed in the current shipping industry section, there are no Australian-flagged petroleum (clean or dirty) or liquefied petroleum gas (LPG) tankers. Approximately 750-1000 vessels deliver these imports annually, with 2-3 deliveries occurring per day. These imports are usually carried by 'Aframax' tankers, capable of carrying half to two-thirds of Australia's daily normal fuel use per vessel.

Once fuel arrives in Australia, coastal shipping is relied on to deliver fuel to regional and city wholesale distribution tanks, before being moved by truck to service stations and regional and remote communities. Foreign maritime vessels transport Australia's liquid fuel between Australia's refineries and import terminals to be provided to Australian end users. In 2020-21, 100 foreign vessels operating under a Coastal Trading Temporary Licence moved liquid fuel between Australian ports. In 2021, foreign vessels operating under Temporary Licence transported 3.47 million MT of crude oil and refined petroleum between Australian ports. In the event of disruption to overland resupply of fuel, regional/remote coastal communities could be supplied by smaller product tankers or barges compatible with regional/remote port infrastructure.

Military conflict

If the scale and intensity of military conflict increases, supply chains will be affected more significantly. Conflicts can range from localised fighting to regional conflicts to global wars, with varying degrees of impact on freight. Conflict can also result in damage to critical freight infrastructure such as ports, roads and rail, constrain access to trade routes, and block trade. Commercial cargo vessels may have to divert to avoid conflict areas, increasing fuel costs and cause delays to the loading or delivery of cargo.

As an island nation, in the event of global conflict Australia may be vulnerable to being isolated from global maritime supply chains, or having its maritime trade significantly disrupted as vessel operators avoid areas of conflict. Much of the shipping traffic Australia relies upon transits key chokepoints in maritime trade such as the Straits of Hormuz and Straits of Malacca, or less significant chokepoints such as the Sunda Strait and Lombok Strait. Approximately two-thirds of Australia's goods trade by tonnage transits the South China Sea, an area which has seen increased geopolitical competition in recent years.

Identification of strategic need/Findings

Overview

The Terms of Reference require the Taskforce to undertake an initial strategic assessment to identify the strategic needs the Australian Government should position itself to influence and the level of control the Government could have on these needs through a strategic fleet of vessels. This strategic assessment has guided the Taskforce's advice to Government regarding where the Government should prioritise deploying the strategic maritime fleet in the most effective manner to address the identified strategic need.

Having conducted the identification of strategic needs, the Taskforce will undertake work when Phase Two commences in early 2023 to determine in more detail how a strategic maritime fleet could meet these needs. This will include fleet composition; likely industry uptake; commercial considerations; workforce issues; risks; and opportunities.

As detailed below, the Taskforce has undertaken this strategic needs assessment through a combination of internal deliberation, research, and stakeholder consultation and has identified several freight and non-freight needs the Australian Government should position itself to influence through the strategic maritime fleet.

Stakeholder views

As outlined in the Stakeholder Consultation section of this report, the Taskforce engaged in broad stakeholder consultation through the public release of a discussion paper, and through targeted consultation with select stakeholders to understand stakeholder views as to the strategic need a strategic maritime fleet should address.

Stakeholder views as to the strategic needs the fleet should address included:

- Enhancing Australian sea freight by providing a more competitive, stable and reliable transport mode;
- Maritime workforce development, including providing a pipeline for Australian seafarers to develop from integrated ratings to more senior positions;
- Providing a sovereign capability to transport Defence cargoes, including explosive ordinance, personnel, stores, and vehicles;
- Container and roll-on-roll-off movements into regional centres (Australian and overseas) to address specific disruptions such as cyclones or flooding;
- Domestic fuel movements; and
- Movement of domestic cargoes that support specific onshore industries.

Strategic needs – freight

The Taskforce has identified several freight needs that are of strategic importance, and are on a scale in which vessels in a strategic maritime fleet of up to 12 vessels could make a meaningful contribution towards. These include:

- 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 container operations (self-load/unload) where a natural disaster or other disruption affects the supply of key goods in Australia's regions or Pacific Island neighbour's;
- Enhancing capability to facilitate Defence or national mobilisation via the shipping of vehicles, equipment, and stores to northern Australia;
- Coastal shipping of containerised cargo between Australian ports to deal with smaller short-term disruptions;
- Movement of project and over-sized cargo, both internationally and domestically; and
- Coastal shipping of dry and non-fuel liquid bulk cargoes that are key inputs to domestic manufacturing.

The Taskforce will examine these potential opportunities in the context of establishing a strategic fleet supported by a more robust regulatory and government assistance framework.

Strategic needs – non-freight

The Taskforce has identified several non-freight strategic needs that are either directly related to the strategic maritime fleet; or would support complementary strategic objectives. These include:

- Developing the Australian maritime workforce;
- Decarbonisation and future fuels development;
- Supporting the maintenance and growth of sovereign manufacturing;
- Enhancing security and economic relationships with regional and Pacific neighbours;
- Assisting humanitarian undertakings where appropriate – including evacuation of people and cargo, and marine rescues; and
- Supporting the Australian Defence Forces where appropriate, in peace-time activities such as exercises, or in conflict scenarios.

Draft advice to the Australian Government

The Strategic Fleet Taskforce endorses the following interim advice:

Interim Advice 1

The Taskforce advises the Australian Government that they have undertaken an initial strategic needs assessment as required under the Terms of Reference.

This assessment considered Australia's maritime freight trade, and identified key dependencies and disruption scenarios. The Taskforce also assessed the capability needed to address these disruptions.

The Taskforce has identified that there are several potential disruptions to maritime supply chains that would affect freight movements – ranging in scale and consequence from localised weather events, to global conflict. The Taskforce also identified some broader strategic needs the Government should consider in setting the objectives for the fleet, including maritime skills development, decarbonisation and future fuels, supporting sovereign manufacturing, and strategic partnerships.

The Taskforce's strategic needs assessment identified that the most significant strategic freight needs for Australia in any disruption event are primarily imports and coastal trade. These include the continued import and coastal movement of fuel and agricultural and industrial chemicals; and movement of imported containerised goods around the country. The Taskforce recognises that this freight is critical to ensure the continued operation of critical systems and functions in Australia's economy and society – whether by supplying the diesel and aviation fuel needed to support community and business operations and for the Australian Defence Force; pesticides for agriculture to ensure the supply of food to the population; or transporting foodstuffs, medical supplies and other essentials.

While our bulk exports of minerals and ores are of critical economic importance to Australia, the Taskforce has not identified these as a strategic priority for the maritime fleet as any interruption to their shipment would have a limited immediate effect on Australia's economy and society. The Taskforce also notes that for many of these trades Australia has market power in this sector and the volumes are so great the strategic maritime fleet will have little material impact. Much of this is also contracted as Free on Board (FOB), where the buyer determines how the freight is carried and who ships it. Given that the economic interests of other nations are tied to receiving ongoing shipments of Australian commodities, the Taskforce has determined this means shipping capability for this sector is sufficiently secure to not require Australian Government intervention.

The Taskforce advises that a large number of stakeholders indicated that the cost competitiveness of Australian shipping was the main barrier that prevented the use and/or operation of vessels under the Australian flag and with an Australian crew. The Taskforce recognises that cost is a factor that creates a competitive gap that will need to be understood and addressed in order for a strategic fleet to be successful.

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Many stakeholders advised that requiring the carriage of goods on Australian flagged vessels without addressing this issue would have significant impacts on their businesses.

The Taskforce advises Government that it has determined that the effect of the Strategic maritime Fleet on Australia's strategic needs should be categorised in three ways:

- Significant strategic needs where the strategic fleet is not an effective response tool;
- Significant strategic needs where a fleet of up to 12 vessels can have a material effect; and
- Broader non-freight strategic objectives that a strategic fleet could address.

The following advice reflects the findings against each of these categories.

Interim Advice 1a

The Taskforce advises the Australian Government that it considers there are some trades within Australia's shipping task that are of strategic importance to Australia's economy and society, but where Australian Government intervention through a strategic maritime fleet is either not required or is likely to be unsuccessful.

These include trades where cargo volumes are too large for a strategic maritime fleet to have a meaningful effect; or where the companies involved have sufficient market power to secure reliable shipping services, through long-term chartering arrangements; contracting their cargo on a FOB basis where the buyer determines how the freight is carried and by whom; or through ownership and/or operation of vessels.

The Taskforce notes that vessels are only available when vessel owners are willing to provide them, and that there may be circumstances outside of business as usual trade which could alter market dynamics, such as conflict, that would impact the ability to acquire vessels from the market, and where a domestic capability could provide a tangible contribution to supply.

Significant strategic needs where the strategic maritime fleet is not an effective response tool:

- International movement of large volumes of crude oil and refined petroleum.
 - The Taskforce concluded that the volumes of crude oil and refined petroleum that Australia imports are too large for any potential strategic fleet to have a meaningful effect.
- Movement of large volumes of containers between major international transshipment hubs and key destination/origin ports, to Australian metropolitan ports.
 - The Taskforce concluded that the volumes of containers associated with international container import/export to and from Australia are too large for a strategic maritime fleet to have a meaningful effect.
 - For some critical goods that are currently moved internationally by container, and that are of low weight and small volumes, air freight may be an alternative mode that can respond quickly, should sufficient capacity be available.

The Taskforce recognises that while deployment of strategic fleet vessels into these trades is not a priority, policy and regulatory changes that may be recommended to increase the competitiveness of Australian shipping may have the consequence of increasing Australian shipping capability in these trades independently.

The Taskforce also notes that while the Government's commitment to establish the fleet limits itself to a fleet of up to 12 commercial vessels, the Taskforce is considering the strategic needs framework in which vessels in the fleet would exist. The Taskforce considers that depending on strategic need and where there is a positive impact in enhancing Australia's maritime capability and supply chains, that the fleet may include more than 12 vessels and vessel types beyond those that are engaged in conventional cargo operations, including those operated by the Australian Government - by the Australian Defence Force, Australian Border Force, and Australian Maritime Safety Authority; or offshore energy production vessels.

Other measures to pursue

The Taskforce recognises that Australia has a large shipping task and that a limited strategic maritime fleet cannot address all aspects of the task.

To assist in increasing Australia's security of supply for those cargoes where the strategic maritime fleet would be unable to provide a capability on the scale needed, the Taskforce advises the Australian Government to consider pursuing alternative opportunities.

This could include developing bilateral and multilateral relationships with strategic partners in like-minded nation-states and with commercial entities to both establish and support strategic maritime fleet vessels, and to leverage these relationships to obtain additional capability and capacity in these partners' larger fleets. These strategic relationships would need to provide the Government with certainty that capability would be available in times of crisis or conflict. This will be explored further in Phase Two of the Taskforce's work.

Interim Advice 1b

The Taskforce advises Government that the Taskforce has concluded that Government intervention via a strategic fleet may be successful at addressing certain strategic freight needs. These freight needs are of significant strategic importance, and are on a scale for which vessels in a strategic maritime fleet of up to 12 vessels could make a meaningful contribution towards the freight volumes required. The Taskforce notes that some vessels may only be requisitioned in very limited circumstances, such as cement carriers or sulphuric acid tankers.

Significant strategic needs where a fleet of up to 12 vessels can have a material effect:

- 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 container operations (self-load/unload), where a natural disaster or other disruption affects the supply of key goods in Australia's regions or Pacific Island neighbours;
- Enhancing capability to facilitate Defence or national mobilisation via the shipping of vehicles, equipment, and stores to northern Australia;
- Coastal shipping of containerised cargo between Australian ports to deal with smaller short-term disruptions;
- Movement of project and over-sized cargo, both internationally and domestically; and
- Coastal shipping of dry and non-fuel liquid bulk cargoes that are key inputs to domestic manufacturing.

The Taskforce recognises that vessels that meet the criteria above that are also commercially viable on a long-term basis may not necessarily be well-aligned with the Government's requirement that strategic fleet vessels be available to be requisitioned in times of national crisis. The Taskforce will examine these issues in more detail in Phase Two.

Interim Advice 1c

The Taskforce advises Government that the Taskforce has identified several complementary strategic objectives that the strategic fleet could support.

Broader strategic objectives that a fleet could support:

- Developing the Australian maritime workforce;
- Decarbonisation and future fuels development;
- Supporting the maintenance and growth of sovereign manufacturing; and
- Enhancing relationships with regional and Pacific neighbours.

The Taskforce advises that they will assess these strategic objectives, their interaction with the strategic fleet, and potential opportunities and risks in further detail in Phase Two.

Interim Advice 2

The Taskforce recognises that shipping is a complex commercial enterprise and acknowledges that it is a significant commitment to change the registration of a vessel to be Australian-flagged and commence operations. The Taskforce also recognises the high-capital costs and commercial risks associated with shipping, and that ship owners, operators and users all require certainty to provide confidence to business and encourage long-term investment in Australia.

Investment in shipping requires substantial investment up front, with a 25 or 30 year payback over the vessel's useful life. This means that for commercial operators to make these investments, any measures adopted as part of the strategic fleet will need to be part of a broadly supported package of reforms providing a competitive and sustainable business environment that is long-lasting and less likely to be changed by future Governments or other agencies.

Phased approach to implementing the strategic fleet

As a first step, the Taskforce advises the Australian Government to consider developing and implementing a phased approach which is initially aimed at motivating foreign-flagged vessels to register in Australia and be crewed with Australian seafarers. This phased approach would assist in assessing a number of issues associated with establishing the strategic maritime fleet, including testing the market for a level of interest, and what level of assistance may be needed to ensure ongoing operations and enable Australian-flagged vessels to compete with international vessels on a more level playing field.

Vessels selected for the initial phase of the implementation program should have a capability consistent with Interim Advice 1, and must be registered in Australia and be fully crewed with Australian seafarers. The Taskforce acknowledged that the supply of Australian seafarer may not be sufficient to fully crew the strategic fleet and that mixed crewing may be required initially, with a plan to transition the crew to a full Australian complement as the Australian skilled maritime workforce expands. This phased approach will be an opportunity to address the crewing needs and skilling arrangements required to supply future Australian strategic fleet vessels.

This phased implementation program could include up to four currently foreign-flagged vessels in its initial phase, drawing from those actively engaged on the Australian coast in inter or intra-state coastal shipping, or those regularly engaged in international shipping to Australia, where there is well-established pre-existing freight demand.

Participants in the phased implementation program should deliver vessels and other benefits consistent with the Taskforce's findings and Government requirements. If the Government decides to accept this advice the Taskforce suggests the phased implementation program begin as soon as possible, given the lead times involved for businesses in registering vessels in Australia and adjusting commercial operations. Elements of the phased implementation and the mechanisms that are used may need to differ between ship types to ensure the right incentives are in place.

The work of the Taskforce undertaken in Phase Two and the development of the phased implementation program would provide information on how the fleet can be financially sustained, including whether government support is required, and once implemented, would deliver on the Australian Government's need to have control of shipping capability.

The Taskforce will provide advice in Phase Two as to the interaction of vessels operating under this phased implementation program with other aspects of the strategic maritime fleet commitment, including the expectation that vessels will operate commercially, and that vessels will be requisitioned by Government in times of national crisis.

The Taskforce recognises that it is important that there be a transparent procurement process for the phased implementation program and that advice from the Taskforce should not signal or suggest to the market what specific form or quantum of Government support may be required, nor suggest which specific vessels or operators be included in the program.

Interim Advice 3

As identified in Interim Advice 1b, the Taskforce believes there are significant opportunities for strategic maritime fleet vessels to contribute to the movement of Australian Defence Force (ADF) cargoes, including fuel, vehicles, and stores.

The Taskforce advises the Australian Government that it will continue to engage with the Department of Defence in Phase Two to understand ADF commercial shipping needs and how this relates to the strategic maritime fleet.

This will include remaining alert to any information emerging from the Defence Strategic Review (due to report in early 2023) and ongoing Defence work and projects related to mobilisation. The Taskforce notes that the ADF has a number of projects underway that will scope and test options around enhancing Australia's capability for assured military sealift.

This will enable the Taskforce to provide advice to Government in Phase Two on what, if any, actions related to the strategic fleet can complement ADF objectives.

Risks

The Taskforce has identified a number of overarching risks during its initial research and consultation.

The Taskforce has identified a number of risks during its work to date. Testing of these risks and development of potential mitigation strategies will be further examined in Phase Two.

Key risks identified include (but are not limited to):

Phase One advice

- The strategic needs the Taskforce has identified in Phase One are incorrect or incomplete;
- Some stakeholders will believe the strategic needs and capabilities required do not go far enough to address national security and economic sovereignty concerns nor the need to move fuel and container cargoes;
- The converse risk is that if the strategic need is defined too broadly that the Government will over promise on the capability of the fleet and be unable to deliver on expected outcomes in a crisis;
- That a phased approach to implementing establishment of the strategic fleet via an Australian Government industry assistance package aimed at incentivising transition of foreign vessels to Australian registration is insufficient to incentivise or achieve the desired transition;
- That a phased approach does not attract sufficient participants nor the right capability;

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Broader risks

- The cost differential between Australian flagged and crewed vessels is too great to attract ship owners/operators to reflag;
- Costs are passed on to onshore industry and affect business viability;
- Routes/trades cannot be identified that are commercially feasible;
- Shippers choose not to use the fleet during BAU due to timing, flexibility or quality of service;
- The strategic fleet is unable to find sufficient Australian crew;
- That a fleet cannot be sustained without subsidies or a framework cannot be developed that provides for growth and a sustained fleet beyond subsidies;
- A program to support the strategic fleet is unable to be sustained if it does not have bipartisan support.

Next steps

While the interim report is being considered by the Government, the Taskforce will progress its work consistent with Phase Two of the Terms of Reference.

The Taskforce has identified some immediate next steps that need to be undertaken consistent with Phase Two of the Terms of Reference. The Taskforce will use its Phase Two work to further develop its understanding of the Australian maritime industry and the issues it faces. Phase Two is an opportunity to test the robustness of the advice provided in this report and the viability of the options presented, including a proposed phased program that would aim to motivate foreign-flagged vessels to re-flag in Australia. In developing options, the Taskforce will test what would motivate vessel owners and operators to provide vessels with the capability required in a strategic fleet.

Phase Two will also allow the Taskforce to develop options in its final advice that have strong prospects of being supported by the industry and can be implemented by the Government. The Taskforce will review its approach to Phase Two once it receives a response from the Government to its advice on the strategic needs that the fleet should focus on.

Consistent with the requirements set out for Phase Two in the Terms of Reference, a deep exploration will be undertaken of the following:

- preferred composition of the proposed fleet;
- maritime workforce capabilities, which may include consideration of the Future Made in Australia Skills Plan;
- any barriers (and how the Government would overcome them) to the implementation of strategic fleet capability to support the proposed areas of strategic focus;
 - how other national models that provide a strategic fleet-like capability, such as the United States' Maritime Security Program, were implemented, what they cost and whether such a model could work in the Australian context; and
 - in conjunction with this, exploration of the range of options that could would enable access to strategic fleet vessels when required – including but not limited to, commercial engagement, government ownership, or legislated requirements to compel availability – such as requisitioning.
- examination of what is required to motivate vessel owners and operators to enable commercially sensible and enduring commitments to invest in Australian-flagged and crewed vessels, including the types and levels of Government assistance that will be required.
- potential policy options to reduce supply chain risk;
- opportunities to partner with states, territories or other nations such as New Zealand or the Pacific Islands;
- possible changes to the current regulatory framework; and
- impact assessment.

The Taskforce will deliver its final report to the Australian Government, through the Minister for Infrastructure, Transport, Regional Development and Local Government, by 30 June 2023.

An overview of some of the key next steps is provided below.

Expert advice and analysis

The Taskforce will seek further expert advice to build on the knowledge it has developed through Phase One to inform its final advice.

The Taskforce will develop a workplan to engage consultants, commercial experts and legal experts as appropriate. Some of the issues that will likely require expert advice and analysis include options for requisitioning, assessment of commercial viability and international laws and obligations.

Stakeholder consultation

The Taskforce will develop a consultation plan for its Phase Two work. Extensive stakeholder consultation will build on the Taskforce's understanding of pertinent issues for stakeholders and will assist with testing the evidentiary basis for the advice provided in this report.

Opportunities to support other Australian Government priorities

The Taskforce is cognisant that the advice it provides to establish the fleet should complement other Australian Government priorities and initiatives and not be in conflict with them. A number of stakeholders have identified opportunities for the Strategic Fleet initiative to support or work with other government initiatives to enhance the overall outcome from the fleet for the Government and the Australian community. Through Phase Two, the Taskforce will explore opportunities to contribute to other policies and initiatives including:

- developing Australia's maritime workforce and outcomes from the Jobs and Skills Summit
- supporting Defence mobilisation and supply chain requirements (including assessing whether the strategic fleet and the Assured Military Sea Lift pilot program should be aligned)
- regional partnerships, including with Pacific nations
- supporting and maintaining the growth of sovereign manufacturing, and
- reducing carbon emissions and future fuels development.

Strategic partnerships

The Taskforce identified that there may be options outside of a strategic maritime fleet that could be pursued to help secure additional sea freight capacity and reduce supply chain risks.

The Taskforce identified that actions such as developing bilateral and multilateral relationships with strategic partners in like-minded nation-states and with commercial entities would assist in reducing supply chain risks in areas where a strategic fleet may not be able to have a significant impact on mitigating these risks.

Such partnerships could contribute to both establishing and supporting strategic maritime fleet vessels, and to leverage these relationships to obtain additional capability and capacity in these partners' larger fleets. These strategic relationships would need to provide the Government with certainty that capability would be available in times of crisis or conflict. The Taskforce will explore these options further in Phase Two.

Regulatory settings

The Taskforce will begin to examine the current regulatory settings for Australian shipping to determine whether the current framework is fit for purpose and would support the strategic fleet.

The Taskforce will also consider whether there are longer-term policies that would increase the competitiveness of Australian shipping and create a sustainable shipping industry that does not require any government intervention.

Appendix A – Process and outcomes of consultation

The Taskforce developed a consultation plan that would enable as much stakeholder engagement as possible within the timeframes available to inform its interim report. The approach taken by the Taskforce included the following structure:



Strategic Fleet Taskforce – Discussion Paper and stakeholder submissions

The Taskforce’s Discussion Paper was published on the Department’s ‘Have your say’ consultation hub.

Stakeholders were notified that the public consultation process had commenced by links to the consultation being published on the Department’s social media channels, and by the Department emailing stakeholders directly through networks it had established through previous consultation processes.

Discussion Paper submissions

The Taskforce received a total of 59 responses to its discussion paper by the Wednesday 7 December closing date from a range of interested individuals and groups, including academia and consultancies, Australian Government or state and territory government bodies or agencies, onshore industry or fuel/energy users of shipping, peak bodies, port authorities, private individuals, rail, shipping or marine logistics services providers, and unions.

Stakeholder submissions received by 7 December 2022 in reply to the discussion paper

| Stakeholder grouping | Stakeholder | Submissions received |
|--|--|----------------------|
| Academia and consultancies | 1. RMIT Australian Maritime Logistics Research Network 2. Strategic Marine Group | (2) |
| Australian Government or state and territory government bodies | 1. Australian Government Department of Home Affairs 2. Australian Government Department of Defence 3. Maritime Safety Queensland 4. Western Australian Shipping and Supply Chain Taskforce | (4) |
| Onshore industry or fuel/energy users of shipping | 1. s45 2. Rio Tinto 3. s45 4. Wilmar Sugar Australia | (4) |
| Peak bodies | 1. Australasian Marine Pilots Institute 2. Australian Aluminium Council 3. Australian Institute of Petroleum 4. Business Council of Australia 5. s45 6. Chamber of Minerals and Energy of Western Australia 7. Company of Master Mariners, Western Australia Branch 8. Export Council of Australia 9. s45 10. Grain Trade Australia 11. Logistics and Defence Skills Australia 12. Maritime Industry Australia Limited 13. Offshore Specialist Ships Australia 14. Shipping Australia Limited 15. s45 16. Water Services Association of Australia | (16) |
| Port authorities | 1. Pilbara Port Authority | (1) |
| Private individuals/ Miscellaneous (deidentified) | | (14) |
| Rail | 1. SCT Logistics | (1) |
| Shipping or maritime logistics provider | 1. s45 2. Antares Marine 3. s45 4. s45 5. s45 6. s45 | (14) |

| | | |
|--------|--|------------------|
| | <ul style="list-style-type: none"> 7. Focus Container Lines 8. Hermes Maritime Shipping & Logistics 9. s45 [REDACTED] 10. McPhee Freight 11. s45 [REDACTED] 12. Southern Ocean Solutions 13. s45 [REDACTED] 14. s45 [REDACTED] | |
| Unions | <ul style="list-style-type: none"> 1. Australian Institute of Marine and Power Engineers, Australian Maritime Officers Union (joint submission) 2. Maritime Union of Australia 3. Rail, Tram and Bus Union | (3) |
| | | Total: 59 |

Targeted consultation

The Taskforce engaged with key stakeholders through targeted sessions to gain a deeper understanding of stakeholder views on what strategic purpose the fleet could deliver. The table below outlines the four targeted consultation sessions, including meeting participants.

| Date | Participants | | Stakeholder Group | Lead TF members |
|--|--|------------------|-----------------------------------|---------------------------------------|
| Monday, 28/11 Session 1: 9:00-11:00am AEDT | Maritime Union of Australia | | Maritime unions | Mr John Mullen, Dr Sarah Ryan. |
| | Australian Institute of Marine and Power Engineers | | | |
| | Australian Maritime Officers Union | | | |
| Monday, 28/11 Session 2: 12:00-2:00pm AEDT | Asiaworld Shipping | BBC Chartering | Shipping Providers | Mr John Mullen, Dr Sarah Ryan. |
| | s45 | Searoad Shipping | | |
| | Maersk | P&O Maritime | | |
| | s45 | s45 | | |
| | s45 | s45 | | |
| Thursday, 1/12 Session 1: 10:00am- 12:00pm AEDT | AdBri | Incitec Pivot | Onshore users of shipping | Mr John Mullen, Ms Angela Gillham. |
| | Alcoa Australia | Rio Tinto | | |
| | s45 | | | |
| Thursday, 1/12 Session 2: 2:00-4:00pm AEDT | Origin Energy | Ampol | Fuel and energy users of shipping | Mr John Mullen, Ms Angela Gillham. |
| | s45 | BP Australia | | |

Appendix B – Issues raised in consultation

The information presented is as provided by those stakeholders who provided information through the public submission process associated with the Taskforce’s discussion paper; or through targeted consultation sessions with maritime unions, shipping providers, onshore users of shipping, and fuel and energy users of shipping. The information will be further examined and tested during Phase Two.

Discussion paper

Key themes raised in submissions to the discussion paper included:

s47c



Decarbonisation

- Submissions identified the necessity of the strategic fleet to link with Australia’s commitments to reduce greenhouse gas emissions.

Targeted consultation

Consultation with stakeholders from the maritime unions raised the following issues:

- The need for the current Australian Government approach to the capture, analysis and publication of shipping data to improve, to enable information about industry needs and the Australian shipping task to be better understood.
- That fuel movements are of strategic importance, and that there would need to be flexibility in the strategic fleet to meet Australian fuel security needs, including using a range of different tanker types and sizes depending on the fuel task.
- The need for the strategic fleet to provide a capability that would support Australian manufacturing; and the supply of food and essentials in the event of disruptions.
- That the fleet could be supported on existing trades, or routes with backhaul volumes so ballast voyages can be minimised.
- The need for the strategic fleet to be established with consideration of greenhouse gas emissions reduction, and that vessels to be consistent with IMO requirements at a minimum.
- The role the fleet could play in supporting offshore wind renewable energy projects.
- The need for certainty of government support/regulation for long-term investment in the Australian maritime industry to succeed – given the long effective lives of ships (up to 25 years) and significant time needed to train Australian seafarers to high levels of qualification.
- The need for investment in training and consideration of how to encourage people to join the industry including a focus on women.
 - The participants noted that training a master class 1 mariner can take 10 years and that the training of seafarers needs to begin now to ensure a pipeline of seafarers into the future.
 - Participants noted that there were insufficient Australian seafarers available to immediately crew a strategic fleet of 12 vessels. Stakeholders raised that there would need to be an expansion across the existing STCW training facilities to at least 60 deck officers and 60 engineers per year to support an eventual strategic fleet of 12 vessels.
- The need for taxation changes for shipping operators and for seafarers.

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Appendix D - Taskforce Consultation

The Taskforce undertook a combination of broad and targeted stakeholder consultation in Phase One and Phase Two to inform development of the recommendations and advice to Government.

Overview

The Terms of Reference required the Taskforce to undertake broad stakeholder consultation to ensure a range of views were considered to inform its advice to the Government.

In Phase One the Taskforce undertook wide consultation through the release of a public discussion paper and targeted group consultation. Phase One consultation helped the Taskforce understand stakeholder views on the strategic purpose the fleet could deliver, and helped to shape options to deliver on the Government's strategic fleet policy objectives.

In Phase Two the Taskforce undertook targeted and broad consultation with stakeholders to get advice on the efficacy of options to expand Australia's fleet of vessels, to requisition vessels in times of crisis or emergency, and to grow Australia's maritime workforce.

Timeline of consultation activities

| Activity | Date | Phase |
|----------------------------------|---|-------|
| Discussion paper | 16 November 2022 - 7 December 2022 | One |
| Targeted group consultation | 28 November 2022 - 1 December 2022 | One |
| Open invitation to contribute | 3 February 2023 | Two |
| Targeted one-on-one consultation | 16 March 2023 - 29 March 2023 | Two |
| Final one-on-one consultation | 30 May 2023 - 31 May 2023; 23 June 2023 | Two |

Phase One consultation

Discussion Paper

A Discussion Paper seeking stakeholder views on what strategic need the fleet could deliver was publicly released for consultation on 16 November, with submissions closing on 7 December. The discussion paper received 59 responses. Submissions were published on the Department's website.

Submissions were received from a range of interested individuals and groups, including academia and consultancies, Australian Government or state and territory government bodies or agencies, onshore industry or fuel/energy users of shipping, peak bodies, port authorities, private individuals, rail, shipping or marine logistics services providers, and unions.

The Taskforce's Discussion Paper was published on the Department's 'Have your say' consultation hub. Stakeholders were notified that the public consultation process had commenced by links to the consultation being published on the Department's social media channels, and by the Department emailing stakeholders directly through networks it had established through previous consultation processes.

The Taskforce received a total of 59 responses to its discussion paper, contributors to the discussion paper are outlined below:

Stakeholder submissions received by 7 December 2022 in reply to the discussion paper

| Stakeholder grouping | Stakeholder | Submissions received |
|---|--|-----------------------------|
| Academia and consultancies | 1. RMIT Australian Maritime Logistics Research Network 2. Strategic Marine Group | (2) |
| Australian Government or state and territory government bodies | 1. Australian Government Department of Home Affairs 2. Australian Government Department of Defence 3. Maritime Safety Queensland 4. Western Australian Shipping and Supply Chain Taskforce | (4) |
| Onshore industry or fuel/energy users of shipping | 1. §45 2. Rio Tinto 3. §45 4. Wilmar Sugar Australia | (4) |
| Peak bodies | 1. Australasian Marine Pilots Institute 2. Australian Aluminium Council 3. Australian Institute of Petroleum 4. Business Council of Australia 5. §45 6. Chamber of Minerals and Energy of Western Australia 7. Company of Master Mariners, Western Australia Branch 8. Export Council of Australia 9. §45 10. Grain Trade Australia 11. Logistics and Defence Skills Australia 12. Maritime Industry Australia Limited 13. Offshore Specialist Ships Australia 14. Shipping Australia Limited 15. §45 16. Water Services Association of Australia | (16) |
| Port authorities | 1. Pilbara Port Authority | (1) |
| Private individuals/ Miscellaneous (deidentified) | | (14) |
| Rail | 1. SCT Logistics | (1) |
| Shipping or maritime logistics provider | 1. §45 2. Antares Marine | (14) |

| | | |
|---------------|--|------------------|
| | 3. s45 4. s45 5. s45 6. s45 7. Focus Container Lines 8. Hermes Maritime Shipping & Logistics 9. s45 10. McPhee Freight 11. s45 12. Southern Ocean Solutions 13. s45 14. s45 | |
| Unions | 1. Australian Institute of Marine and Power Engineers and Australian Maritime Officers Union (joint submission) 2. Maritime Union of Australia 3. Rail, Tram and Bus Union | (3) |
| | | Total: 59 |

Targeted Group Consultation: 28 November 2022 - 1 December 2022

The Taskforce undertook four separate and targeted consultation sessions on Monday 28 November 2022 and Thursday 1 December 2022 with key stakeholder groups that held similar expertise or shared interests. Sessions were conducted through a mix of in-person and virtual meetings.

The first session was with the maritime unions, the second with shipping providers, the third with onshore users of shipping, and the fourth with fuel and energy users of shipping.

These sessions enabled the Taskforce to engage with key stakeholders and facilitated in-depth discussions about the strategic purpose the fleet could deliver.

| Date | Participants | Stakeholder Group | Lead TF members |
|---|--|-----------------------------------|---------------------------|
| Monday, 28/11 Session 1: 9:00-11:00am | Maritime Union of Australia: s47F | Maritime Unions | John Mullen Sarah Ryan |
| | Australian Institute of Marine and Power Engineers: s47F | | |
| | Australian Maritime Officers Union: s47F | | |
| Monday, 28/11 Session 2: 12:00-2:00pm | Asiaworld Shipping: s47F | Shipping Providers/ Charterers | John Mullen Sarah Ryan |
| | BBC Chartering: s47F | | |
| | Searoad: s47F | | |

| Date | Participants | Stakeholder Group | Lead TF members |
|--|---|-----------------------|-------------------------------|
| | s45 s47F s45 s47F P&O Maritime Logistics s47F s45 s4 / F s45 s4 / F s45 s4 / F Maersk s47F | | |
| Thursday 1/12 Session 1: 10:00am- 12:00pm | s45 s4 / F Alcoa Australia: s47F AdBri: s47F Rio Tinto: s47F Incitec Pivot s47F | Onshore Industry | John Mullen Angela Gillham |
| Thursday 1/12 Session 2: 2:00-4:00pm | s45 : s4 / F AMPOL s47F Origin Energy: s47F BP Australia: s47F | Fuel/Energy Providers | John Mullen Angela Gillham |

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Targeted Consultation Sessions

The Taskforce engaged with key stakeholders through targeted sessions to gain a deeper understanding of stakeholder views on what strategic purpose the fleet could deliver.

The Taskforce held four separate group meetings over two days with stakeholders that share similar interests or have similar expertise. Stakeholder groups included maritime unions; ship owners/shipping providers; onshore users of shipping; and users of fuel and energy shipping.

- Meeting one was attended by three maritime unions.
 - Meeting two was attended by 10 shipping providers/charterers.
 - Meeting three was attended by five onshore industry users of shipping.
 - Meeting four was attended by four fuel/energy providers.
- The following organisations were invited to meet for consultation but did not attend:
 - Inchcape Shipping;
 - s45 ;
 - Orica;
 - South32;
 - BlueScope Australia; and
 - Nyrstar.

The table below lists the organisations and their representatives that participated in the four targeted consultation sessions.

| Date | Participants | Stakeholder Group | Lead TF members |
|---|--|-----------------------------------|---------------------------|
| Monday, 28/11 Session 1: 9:00-11:00am AEDT | Maritime Union of Australia: s47F | Maritime Unions | John Mullen Sarah Ryan |
| | Australian Institute of Marine and Power Engineers: s47F | | |
| | Australian Maritime Officers Union: s47F | | |
| Monday, 28/11 Session 2: 12:00-2:00pm AEDT | Asiaworld Shipping: s47F | Shipping Providers/ Charterers | John Mullen Sarah Ryan |
| | BBC Chartering: s47F | | |
| | Searoad: s47F | | |
| | ANL: s47F | | |
| | s45 s47F | | |
| | P&O Maritime Logistics s47F | | |
| | s45 s47F | | |
| | s45 s47F | | |
| | s45 | | |

| | | | |
|--|---------------------------------|--------------------------|----------------------------------|
| | s47F | | |
| | Maersk s47F | | |
| Thursday 1/12 Session 1: 10:00am- 12:00pm AEDT | s45 : s4 / r | Onshore Industry | John Mullen Angela Gillham |
| | Alcoa Australia: s47F | | |
| | AdBri: s47F | | |
| | Rio Tinto: s47F | | |
| | Incitec Pivot s47F | | |
| Thursday 1/12 Session 2: 2:00-4:00pm AEDT | s45 : s4 / r | Fuel/Energy Providers | John Mullen Angela Gillham |
| | AMPOL s47F | | |
| | Origin Energy: s47F | | |
| | BP Australia: s47F | | |

Phase Two Consultation

Targeted One-On-One Consultation: 16 March 2023 - 29 March 2023

The Taskforce undertook an extensive one-on-one consultation program from 16 March 2023 to 29 March 2023, meeting with 17 key industry stakeholders. A discussion aid was circulated to stakeholders ahead of the meeting containing potential options on how to make Australian ships more competitive and increase the maritime skills pipeline.

The Taskforce decided to undertake one-on-one consultation to enable stakeholders to provide more detailed information, some of which may be commercially sensitive. In the group consultation sessions, some stakeholders noted hesitancy to engage in free discussion due to these reasons.

Stakeholders were generally receptive to the options the Taskforce provided for comment, noting that a mix of options is likely required to provide enough incentive for the flagging of Australian vessels with Australian crew.

The below table lists the organisations that met with the Taskforce.

| Organisation | Date | Time |
|--------------|----------|----------------|
| s45 | March 16 | 9.30am-10.30am |

| | | |
|----------------|----------|-----------------|
| s45 | March 16 | 1pm-2pm |
| s45 | March 17 | 10.30am-11.30am |
| s45 | March 17 | 2pm-3pm |
| NPDL | March 17 | 3.30pm-4.30pm |
| s45 | March 20 | 12pm-1pm |
| Woodside | March 20 | 1pm-2pm |
| s45 | March 23 | 9am-10am |
| Nyrstar | March 23 | 1pm-2pm |
| Ampol | March 23 | 2pm-3pm |
| s45 | March 27 | 11am-12pm |
| s45 | March 27 | 2pm-3pm |
| s45 | March 27 | 3.30pm-4.30pm |
| s45 | March 29 | 9am-10am |
| BBC Chartering | March 29 | 10.30am-11.30am |
| Rio Tinto | March 29 | 1pm-2pm |
| Maersk | March 29 | 3pm-4pm |

Open Invitation to Stakeholders to Contribute

On 3 February 2023, the Taskforce issued an open invitation for stakeholders to provide proposals, options or ideas for the establishment of the fleet and how it could be operationalised.

The open invitation received 17 written submissions from stakeholders including shipping, unions, peak bodies and private individuals. Four submissions were marked as confidential.

Submissions were generally supportive of the strategic fleet, with eight stakeholders providing detailed responses that are broadly aligned with issues raised in previous consultation.

| Stakeholder | Date |
|---|------------------|
| 1. s47F | 3 February 2023 |
| 2. s47F, BBC Chartering Australia | 3 February 2023 |
| 3. s47F, Freight and Trade Alliance (FTA) | 5 February 2023 |
| 4. s47F, Australian Aluminium Council | 6 February 2023 |
| 5. s47F, Southern Ocean Solutions | 8 February 2023 |
| 6. s47F, Leeward Group | 10 February 2023 |
| 7. s47F, McPhee Freight | 13 February 2023 |
| 8. s47F, DAZMAC | 13 February 2023 |
| 9. s47F, AMPI | 10 March 2023 |
| 10. s47F, The Australian Council of Mission to Seafarers and Stella Maria Australia | 22 March 2023 |
| 11. s47F, Fremantle Ports | 4 April 2023 |
| 12. s47F, Australian Commercial Vessel Operations Association | 17 May 2023 |
| 13. s47F, The Nautical Institute-Western Australia Branch | 5 June 2023 |
| 14 – 17: confidential submissions | N/A |

Final one-on-one consultation

Key ship owner/operator stakeholders were invited to participate in one-on-one consultation sessions with the Taskforce on 30 and 31 May 2023, and on 23 June 2023. These stakeholders had also participated in the Taskforce's previous consultation.

These discussions sought to gauge stakeholder views on the Taskforce’s draft recommendations to establish a strategic maritime fleet and develop Australia’s maritime workforce.

Stakeholders generally had positive reactions to the recommendations being tested by the Taskforce. The recommendations tested included those around closing the ‘cost gap’ via a subsidy or taxation change, options for requisitioning, maritime training and other measures, such as decarbonisation and partnerships with these companies.

Stakeholders made suggestions to improve the efficacy of proposed recommendations and offered a commercial perspective on the recommendations being considered by the Taskforce.

Stakeholders who met with the Taskforce on 30 and 31 May 2023, and on 23 June 2023

| # | Organisation | Date |
|---|--------------|--------------|
| 1 | s45 | 30 May 2023 |
| 2 | s45 | 30 May 2023 |
| 3 | s45 | 30 May 2023 |
| 4 | s45 | 31 May 2023 |
| 5 | s45 | 31 May 2023 |
| 6 | s45 | 31 May 2023 |
| 7 | s45 | 31 May 2023 |
| 8 | s45 | 23 June 2023 |

Australian Government Departments that briefed the Taskforce

During its appointment, the Taskforce was briefed by representatives from Australian 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.

A list of Government agencies that briefed the Taskforce can be found below.

| # | Australian Government | Taskforce meeting | Date |
|---|---|---------------------|------------------|
| 1 | Department of Climate Change, Energy, the Environment and Water | Taskforce Meeting 2 | 9 November 2022 |
| 2 | Department of Industry, Science and Resources | Taskforce Meeting 2 | 9 November 2022 |
| 3 | s45 | Taskforce Meeting 3 | 22 November 2022 |
| 4 | Department of Employment and Workplace Relations | Taskforce Meeting 3 | 22 November 2022 |
| 5 | Department of Industry, Science and Resources | Taskforce Meeting 6 | 24 January 2023 |

Appendix E - Research Program

Consistent with its Terms of Reference, the Taskforce was supported by expert advice commissioned to provide analysis and ensure recommendations are supported by evidence.

Phase One Research

PriceWaterhouseCoopers were engaged by the Secretariat on the behalf of the Taskforce to deliver expert advice.

- PWC provided reports on:
 - Australia's shipping industry;
 - Australia's shipping vessels and current and future cargo volumes;
 - The current state of the Australian maritime workforce;
 - A disruption analysis of the Australian Maritime Industry and Growth Potential; and,
 - Interim options to Support Delivery of a strategic fleet.
- These reports were delivered in early December, prior to the release of the interim report.

Phase Two Research

GHD were engaged by the Secretariat on the behalf of the Taskforce to deliver expert advice.

- GHD provided reports on:
 - 1a - Domestic and international shipping, crewing and freight rates;
 - 1b International strategic fleet models and domestic requisitioning arrangements;
 - 2 - Australia's maritime workforce
 - including undertaking a census identifying the state of the Australian maritime workforce; and,
 - 3 - Costs and Impacts of specific strategic fleet options/ scenarios.
 - Including a cost model for strategic fleet vessels and a report examining the costs and impacts of specific strategic fleet operational scenarios.
- These reports were delivered in June, prior to the release of the final report.

Appendix F – Comparison of Australian and foreign crew costs

*All costs in AUD per annum.

| Wage agreement Seafarer Class | Australian enterprise agreements | | | | International Labour Organization minimums | |
|----------------------------------|---|---|--|---------------------|--|--------------------|
| | Australian vessel, SeaRoad enterprise agreement | Australian vessel, Toll enterprise agreement | GHD – Oil/Chemical Tanker, Domestic | GHD – MPV, Domestic | GHD – Oil/Chemical Tanker, Foreign | GHD – MPV, Foreign |
| Master | \$ 244,007.00 | \$ 241,404.84 | \$196,000 | \$167,000 | \$87,837.75 | \$64,414.35 |
| Chief Officer | \$ 198,266.00 | \$ 194,100.99 | \$158,000 | \$138,000 | \$68,318.25 | \$54,654.60 |
| 2 nd Officer | \$ 178,728.00 | \$ 174,135.23 | \$150,000 | \$131,000 | \$30,255.23 | \$27,327.30 |
| 3 rd Officer | \$ 165,399.00 | \$ 160,649.47 | \$133,000 | \$116,000 | \$23,423.40 | \$19,519.50 |
| 4 th Officer | - | - | \$125,000 | \$110,000 | \$21,471.45 | \$17,567.55 |
| Officer Cadet | \$ 49,058.00 | \$ 48,913.21 | - | - | - | - |
| Chief Engineer | \$ 237,175.00 | \$ 236,574.69 | \$196,000 | \$161,000 | \$87,837.75 | \$64,414.35 |
| 1 st Engineer | \$ 196,150.00 | \$ 194,100.99 | \$158,000 | \$124,000 | \$68,318.25 | \$48,798.75 |
| 2 nd Engineer | \$ 176,815.00 | \$ 174,135.23 | \$148,000 | \$116,000 | \$29,279.25 | \$29,279.25 |
| 3 rd Engineer | \$ 163,301.00 | \$ 160,649.47 | \$138,000 | \$110,000 | \$23,423.40 | \$23,423.40 |
| Engineer Cadet | \$ 53,718.99 | \$ 44,883.28 | - | - | - | - |
| Chief Integrated Rating | \$ 137,492.00 | \$ 143,541.27 | - | - | - | - |
| Bosun | - | - | - | - | - | - |
| Integrated Rating | \$ 124,075.00 | \$ 128,083.53 | \$128,000 | \$97,000 | \$15,615.60 | \$15,615.60 |
| Able Seaman | - | - | - | - | - | - |
| Ordinary Seaman | - | - | - | - | - | - |
| Trainee Integrated Rating | \$ 57,681.96 | \$ 51,567.57 | - | - | - | - |
| Electrician | - | - | - | - | - | - |
| Fitter/Repairer | - | - | - | - | - | - |
| Donkeyman | - | - | - | - | - | - |
| Radio Officer | - | - | - | - | - | - |
| Chief Cook | \$ 137,492.00 | \$ 143,541.27 | \$128,000 | \$105,000 | \$15,615.60 | \$15,615.60 |
| Chief Steward | \$ 137,492.00 | \$ 143,541.27 | - | - | - | - |
| Steward | \$ 124,075.00 | \$ 128,083.53 | - | - | - | - |

Appendix G – International requisitioning models

The United States of America

The United States of America (US) has a number of established programs and requisitioning arrangements to secure merchant vessel capability. These include the:

- Maritime Security Program (MSP)
- Voluntary Intermodal Sealift Agreements (VISA)
- National Defense Reserve Fleet (NDRF)
- Ready Reserve Force (RRF), and
- Emergency Requisition of Vessels legislation.

Together, these measures include contractual arrangements, Government-owned fleets and a legislative power to ensure the US Government has access to sufficient vessel capability in times of conflict or national need.

Maritime Security Program

The MSP is the primary mechanism by which the US ensures access to merchant vessel capability and associated intermodal services. The MSP operates as a series of contractual arrangements between shipping companies and the US Government, whereby shipping companies receive a stipend in return for operating US-flagged and crewed vessels.

The requisitioning component of the MSP is established through Emergency Preparedness Agreements (EPAs), which are established between the shipping companies operating MSP vessels and the US Secretary of Transportation. The EPAs require MSP participants to guarantee that resources (including vessels and intermodal systems) will be available on request during times of conflict or national emergency.

Each EPA includes provisions to guarantee fair and reasonable compensation for vessel owners when a resource is requisitioned, and provides for the holder of an EPA to employ an equivalently capable foreign-flagged vessel as a temporary replacement for a US-flagged vessel, subject to approval by the Secretary of Transport and Secretary of Defense.

The MSP requisitioning model provides the US Government with guaranteed access to US-flagged vessels, however, the viability of the fleet is largely reliant on Cargo Preference laws, which give MSP vessels priority access to US Department of Defense (DoD) and Government non-Defense cargoes.

MSP participants reported to the US Government Accountability Office (GAO) in 2018 that the above market rate freight rates they can charge for moving US Government cargoes is vital for making up the cost differential between operating a US-flagged and foreign-flagged vessel, which is not fully covered by the MSP stipend. If the access to preferential cargo or the volumes reduced, it is likely that the stipend would need to be increased significantly or the US would risk the vessel owners removing their vessels from the US register.

Voluntary Intermodal Sealift Agreements

All holders of MSP Operating Agreements are also enrolled in a separate program known as the Voluntary Intermodal Sealift Agreement (VISA) program. The VISA program provides the US Government with access to sealift capability and intermodal services during national emergencies, including conflict, in exchange for granting participants priority access to US Department of Defence cargoes (DoD). Intermodal services provided through the VISA program include operating and transportation assets such as vessels, container stocks, trucks, railcars and terminal facilities.

Operators of US-flagged vessels can enrol their vessels in the VISA at any time, however, once enrolled, participation by a vessel in a VISA activation is mandatory. The VISA program is uncapped and has no ongoing costs outside of activations, as enrolment alone qualifies vessel operators for access to priority cargoes, but no direct financial compensation.

The VISA program is dominated by MSP vessels, which in 2018 made up 60 of the VISA programs 99 total enrolled vessels. Like the MSP, stakeholders have reported that the viability of the VISA program is underpinned by priority access to DoD cargoes, and the associated ability to charge higher than market freight rates.

National Defense Reserve Fleet and Ready Reserve Force

The National Defence Reserve Fleet (NDRF) and the Ready Reserve Force (RRF) are two programs that each consist of a US Government-owned standing reserve fleet of vessels which are able to be used in national defence and emergency scenarios. Containing 91 vessels in total (45 in the NDRF and 46 in the RRF), both fleets are largely idle and colloquially referred to as the 'mothball fleet', with some vessels used for cargo handling and training exercises. As these vessels are Government-owned, they are not subject to requisition and are instead activated on request to MARAD.

While the NDRF and RRF provide guaranteed capability, there are a number of drawbacks to the model. Firstly, the average age of RRF and NDRF vessels is steadily growing, with 80per cent of the RRF 40 to 49 years of age, and 36per cent more than 50 years of age which means that the cost of maintaining such old vessels continues to grow. Secondly, maintaining a fleet of largely idle vessels is expensive, particularly as the RRF requires 10 commercial mariners dedicated to each vessel at any time to ensure they can be activated within five to 10 days.

Emergency Requisition of Vessels Legislation

The US has a legislative power to requisition, codified in Title 46 / Subtitle V / Part E / Chapter 563 / Section § 56302 - Emergency Requisition of Vessels.²⁹ This power applies to all US flagged vessels in emergencies and some foreign-flagged vessels in limited circumstances. When requisitioned, the legislation provides for the owner to be appropriately compensated via a rate of hire for the use of the vessel, and any services under the charter. The legislation also provides for a disputed compensation process.

A key benefit of the requisition legislation is that it gives the US Government guaranteed access to privately owned US-flagged vessels not enrolled in the MSP or VISA. It also provides certainty to shipowners regarding compensation, as well as a clear process to resolve disputes that may arise over the amount of compensation awarded.

However, on its own the legislative power does not ensure the Government has access to marine capability. Rather, the legislation is supported by the US Jones Act, the MSP and other measures that

²⁹ [46 USC Ch. 563: EMERGENCY ACQUISITION OF VESSELS \(house.gov\)](#)

encourage vessel owners to flag their vessels in the United States which means there are vessels on the register available to be requisitioned.

Applicability of US Models in the Australian context

There are a number of elements in the US model that may be highly applicable in the Australian context. For example, the MSP and VISA provides the US Government with a means of exerting control over the types and sizes of vessels available for requisitioning, as well as access to intermodal services as and when required, via a contractual mechanism. The MSP and VISA are further underpinned by the Emergency Requisition of Vessels legislation, which provides the Government with an additional mechanism to access available maritime capability on the US shipping register when required. The dual approach of contractual and legislative requisition provides certainty and flexibility to the US Government that either approach in isolation would be unable to match.

There are elements of the US approach that are less applicable in the Australian context. For example, while the NDRF and RRF provide access to additional capability, they appear to be less cost effective than the MSP/VISA and legislation, with the programs running at a very high annual cost, while providing very old and outdated vessels with limited capability. The NDRF and RRF models are also out scope of the Terms of Reference as the US Government ownership model is inconsistent with the Australian Government's expectation that vessels are to be privately owned operated commercially.

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.

The member nations that provide sealift capacity each retain control of their own sealift capacity, through existing contractual or requisition arrangements. When a request for additional sealift capacity is made, the member nations consult between themselves, and all decisions taken are based on the unanimous agreement of the member nations. Member nations have responsibility for providing visibility of the assets they have available.³⁰

The benefit of the NATO arrangement is that it achieves the goal of providing security through sealift capacity in a cost-effective format as financial contributions are spread across member states. It also enhances the flexibility of countries to respond to a crisis by facilitating access to a wide array of vessels with excess sealift capacity provided by the private sector.

While the MSSC retains 15 vessels on permanent charter, its capacity to provide additional sealift capability is subject to the availability of vessels on the market.

Applicability of the NATO model in the Australian context

³⁰ GHD Report 1B – Strategic Fleet Requisitioning Arrangements, p.23

Officers from NATO have advised the Taskforce that Australia is expected to be a new member of MCCE in 2023, which will expand the reach of the NATO Maritime Sealift program into the Southern Hemisphere for the first time. In joining, Australia would then benefit from the partnership with other MCCE member countries, sharing in the same information flows as provided to all members.

If Australia becomes the newest member of the MCCE, it is conceivable that it would provide additional means of accessing maritime capability for Australia, but that as a signatory, it is also conceivable that Australia would be required to contribute sealift capability on request which further strengthens the need for a strategic fleet.

Singapore Merchant Marine

Singapore's 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 Act specifies that the Government must provide fair compensation to shipowners whose vessels are requisitioned, which helps to protect shipowners' interests. Compensation is determined as a sum equal to what might reasonably be expected to be payable for the use of the vessel over the period of the requisition, including for the costs of insuring, maintaining and running the vessel.

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. The efficacy of the legislation is likely to come from a large number of vessels and vessel types on the Register.

Applicability of the Singapore model in the Australian context

The Singapore model includes a number of elements that could be applicable in the Australian context. A broad ranging legislative power to requisition any vessel on the Singaporean register provides the Singaporean Government with guaranteed access to all types of maritime capability which is at the centre of the Government's rationale for wanting to establish a strategic fleet.

The overall strength of the power provided by the Requisition of Resources Act derives from the significant number of vessels registered in Singapore. Without significant growth in the number and diversity of vessels registered in Australia, an equivalent power would not provide the Australian Government with the same level of guaranteed access to maritime capability.

United Kingdom (UK) 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 fleet 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 Ministry of Defence (MoD). Vessels are currently not offered for commercial charter, mainly due to increased compliance requirements, the current fleet being utilised at capacity and a general lack of appetite by the MoD.

The benefit of this model is that it is available for use by the UK Government in all situations and at short notice. There are other benefits such as the high degree of interaction between the MoD and merchant mariners and the control over crewing arrangements. The RFA requires significant funding, particularly as the fleet is not used on a commercial basis. In the 2018-19 financial year the budgetary impact of the RFA was costed at £174 million pounds for nine relatively small vessels.

Applicability of the RFA model in the Australian context

There are some elements of the RFA model that provide valuable insight for establishing the strategic fleet. For example, the RFA provides the UK Government with guaranteed availability of maritime capability, a fleet that has a high degree of interoperability with the UK Navy, and a crew that are subject to Naval command. However, the RFA is a significant budgetary expense for the UK Government and as the RFA is a Government owned fleet, it does not satisfy the Terms of Reference which provide that the strategic fleet is to be a privately owned, commercially operated fleet.



Appendix H - The Maritime Workforce Development Strategy

The Maritime Workforce Development Forum (MWDF) was a maritime industry body established in 2012 by then Minister for Infrastructure and Transport, the Hon Anthony Albanese MP. The MWDF was tasked to shape the strategic responses to skills issues facing the maritime industry, and to build strategic and productive working relationships across the maritime and training sectors. The Taskforce understands the MWDF and its recommendations remain highly regarded stakeholders in the maritime industry.

The MWDF was Chaired by Ms Lynelle Briggs AO, and comprised representatives from the maritime industry including unions, ports, ship owners and operators, the Royal Australian Navy (Navy), and peak bodies such as Ports Australia and Australian Shipowners Association (now MIAL). A key piece of work delivered by the MWDF was the Maritime Workforce Development Strategy (MWDS), which, although based upon data and experiences now more than a decade old, remains highly relevant to the maritime industry today and provide the basis for some of the Taskforce's recommendations.

Few of the MWDS recommendations have been implemented, with recommendations relating to ongoing maritime censuses, maritime training obligations and targets, funding and subsidies, and the coordination of training berths, training packages and between governments and industry yet to be addressed. While there has been some work to coordinate between Navy and AMSA regarding civilian and Defence qualifications, and by the Transport and Logistics Skills Council to manage maritime training packages, these recommendations require further work to be implemented in full.

| Australian Maritime Workforce Development Strategy – Recommendations* | |
|--|--|
| 1 | That the Government endorses the Australian Maritime Workforce Development Strategy and supports its vision for the maritime industry and the strategy's implementation. |
| 2 | That the Government supports the continuation of the Maritime Workforce Development Forum to lead the implementation of the strategy, with an expanded membership. |
| 3 | 3. That the Government funds the Forum to conduct a maritime workforce census every two years to build on the 2012 census and enhance the data source as a basis for improved workforce and skill demand predictions. |
| 4 | That the Government endorses a national maritime training target for each occupational category in the maritime sector, which would be set by the Forum on advice from the national maritime training organisation. The first national training target for endorsement is 545 in year one and 505 a year for the following two years—made up of 225 integrated ratings; 130 for engineer officers, with an aspirational target of 200 engineer officers if training berths can be found; and 120 for deck officers in year one with 80 per annum thereafter. |
| 5 | That the Government endorses the establishment of a national industry training organisation set up as a not-for-profit public company limited by guarantee, with a small independent board drawn from Forum membership. The organisation would be responsible for the development of a national demand aggregation model, management of the national maritime training co-contribution subsidy and the parameters and day to day operations of the training guarantee. |
| 6 | That the Australian and State Governments endorse the formation of a virtual national maritime college to bring the three AMSA-approved maritime colleges closer together, and support their memorandum of understanding. |

| Australian Maritime Workforce Development Strategy – Recommendations* | |
|--|--|
| 7 | That the maritime industry, AMSA, the maritime training colleges and TLISC continue to collaborate on the continuous improvement in the maritime training package, innovation in the development of training programs based on the package, and on opportunities for increased flexibility in the delivery of training and recruitment of women and Indigenous Australians to the industry. |
| 8 | That the Australian and State Governments pool resources for VET maritime training and manage the pool through a national industry training organisation as set out in Recommendation 5. |
| 9 | That the Government introduce a national maritime training co-contribution subsidy of \$10,000 per integrated rating trainee and \$20,000 per deck and engineer officer trainee in order to quickly boost maritime training numbers. |
| 10 | That the Government provide seed funding of \$1.5 million a year for three years to cover the development costs of the national aggregation model, running future biennial workforce censuses, the establishment and initial operation of a small national industry training body, the engagement of a senior person to facilitate the integration of maritime training colleges under the MOU, and support the Forum's ongoing operations. |
| 11 | That the Government implement a mandatory training obligation of 2 per cent of payroll for the maritime industry using maritime labour and covering relevant maritime qualified jobs, including those relevant jobs in resource companies in the offshore construction phase, as well as regulators, ports, pilots, towage companies and so on. |
| 12 | That the Government consult with resource companies and operational stakeholders, including maritime unions, in the offshore industry to identify gaps, if any, to manage the provision of specialist maritime services with a view to ensuring the smooth delivery of domestic development/construction projects which on occasion require specialist international maritime services which are not available in Australia. The aim would be to deal with such international usage needs objectively whilst ensuring that momentum is maintained on the delivery of domestic skills development against the long-term sustainable needs of the Australian offshore and maritime industries. |
| 13 | That the Government work through Navy and the commercial sector to investigate ways to increase co-operative partnership arrangements between the commercial and naval sectors in areas such as recruitment, training, and training standards, with a report back to the Government by 1 August 2013. |
| 14 | That the Government supports the Forum in further work to explore the idea of a 'maritime cluster' to strengthen the shipping reform agenda. |

*The recommendations received the full support of all Forum members, except for recommendations 4, 5, 6 and 8, which are not supported by AIMPE.

Appendix I - Pilbara Port Authority Cadetship outline



Appendix J – Comparison of Singapore Register of Ships and Australian International Shipping Register

| Element | Singapore Register of Ships | Australian International Shipping Register (AISR) | Taskforce views/Options under consideration |
|----------------------------------|---|---|--|
| Income or Corporation Tax | <p>Profits derived from the operation of a Singapore vessel are exempt from Singapore income tax. The exemption applies to the income derived from the carriage in international waters of passengers, mail, livestock or goods by seagoing Singapore vessels and includes the income derived from the charter of Singapore ships.</p> <p>Specific Measures: Maritime Sector Incentive (MSI) program</p> <ol style="list-style-type: none"> 1) Approved International Shipping Enterprise Award (AIS) <ol style="list-style-type: none"> a. Purpose is to encourage international ship owners and ship operators to establish their commercial shipping operations in Singapore. b. Tax exemptions on qualifying income for a 10-year renewable period or a 5-year non-renewable period. 2) Shipping Related Support Services (SSS) <ol style="list-style-type: none"> a. Purpose is to promote the growth of ancillary shipping service providers and to encourage shipping conglomerates to set up their corporate services functions in Singapore. | <p>Australian resident shipping companies are subject to the general corporate tax rules and are taxed at a rate of 30 per cent of their taxable income unless they are a qualifying small or medium company eligible for a reduced corporate tax rate of 25 per cent.</p> <p>The Shipping Reform (Tax Incentives) Act 2012 provides Australian companies with four tax incentives:</p> <ol style="list-style-type: none"> a. an Income Tax Exemption for operators of Australian registered eligible vessels on qualifying shipping income; b. Accelerated Depreciation and Rollover Relief for owners of Australian registered eligible vessels; | <ol style="list-style-type: none"> 1) Seafarers Tax Offset (STO) Reform: this option proposes to make all income earned by Australian seafarers, whether overseas or in Australia, exempt from tax. 2) Corporate Taxation Amendments: this option proposes that corporate tax settings should be amended to remove taxation at the point of distribution of profits for owners of companies providing strategic fleet vessels. |

| Element | Singapore Register of Ships | Australian International Shipping Register (AISR) | Taskforce views/Options under consideration |
|--------------------|--|---|---|
| | <p>b. A concessionary tax rate of 10% for a 5-year period on incremental income from qualifying shipping-related support services (e.g. ship management, ship agency and freight forwarding).</p> <p>3) Maritime Leasing Scheme (ML) Award:</p> <p>a. Purpose is to encourage entities to use Singapore as their capital and funding base to finance their vessels or sea containers.</p> <p>b. Ship or container leasing companies, business trusts or partnerships will enjoy tax concessions for up to 5 years on their qualifying leasing income under the MSI-ML award.</p> <p>c. An approved manager of the asset-owning entity will be awarded a concessionary tax rate of 10% on its qualifying management income.</p> <p>Operating and qualifying finance leases are both covered under the MSI-ML award to allow asset-owning flexibility in leasing and chartering options.</p> | <p>c. a Refundable Tax Offset for employers who employ eligible Australian seafarers; and</p> <p>d. an exemption from Royalty Withholding Tax for foreign owners of eligible vessels leased under a bareboat or demise charter to an Australian operator.</p> | |
| Tonnage Tax | The Annual Tonnage Tax (ATT) is S\$0.20 per NT subject to a minimum of S\$100 (500 NT) and a maximum of S\$10,000 (50,000 NT). | N/A. Tonnage tax is an alternative method of calculating the taxable profits of shipping companies. | |

| Element | Singapore Register of Ships | Australian International Shipping Register (AISR) | Taskforce views/Options under consideration |
|---------|--|---|---|
| Fees | <p>1) The Initial Registration Fee (IRF) is S\$2.50 per NT subject to a minimum of S\$1,250 (500 NT) and a maximum of S\$50,000 (20,000 NT).</p> <p>2) The Block Transfer Scheme (BTS) gives an 80% discount over the initial registration fee (IRF) to shipowners who register their ships fulfilling the BTS criteria. Under the BTS, vessels are registered at the rate of \$0.50 per Net Tonne (NT) subject to a minimum of S\$1,250 for 2,000 NT and maximum of S\$20,000 for 40,000 NT.</p> <p>3) The BTS applies to owners registering vessels, within a period of 12 months from the first approval date, subject to satisfying the following criteria:</p> <ol style="list-style-type: none"> a. 1 ship aggregating at least 40,000 NT b. 2 ships aggregating at least 40,000 NT c. 3 ships aggregating at least 30,000 NT d. 4 ships aggregating at least 20,000 NT e. 5 ships of any aggregating tonnage <p>4) The Annual Administration Fee (AAF) Scheme provides an alternative payment mode option applicable to all Singapore-registered owners for registration and crewing-related services. With effect from 1 Jan 17, the AAF scheme would be priced on a tiered-fees based on size of ship.</p> <ol style="list-style-type: none"> a. Tier 1: 0-299 GT = S\$120 | <p>Registration charges</p> <p>Shipping registration fees are paid as a one-off application fee for each service provided. The information below is a summary of the charges that may apply and is correct as of 1 April 2019. The charges are set out in the <i>Australian Maritime Safety Authority Fees Determination 2015</i></p> <p>1) Applications for registration or re-registration:</p> <ol style="list-style-type: none"> a. Application for registration for a ship that is permitted to be registered: A\$1554 b. Application for registration of a ship required to be registered: A\$2664 c. Application for registration of a ship, other than an Australian owned ship, on demise charter to an Australia-based operator: A\$3996 | |

| Element | Singapore Register of Ships | Australian International Shipping Register (AISR) | Taskforce views/Options under consideration |
|---------|---|---|---|
| | <p>b. Tier 2: 300-2,000 GT = S\$300 c. Tier 3: Above 2,000 GT = S\$600</p> <p>5) From 1 July 2017, the following enhancements to the AFF scheme is applicable:</p> <p>a. The list of services covered under the AAF scheme will be expanded to include Seafarer Certification Services such as certificates of competency, certificates of proficiency and type rating certificates.</p> <p>On top of the enhanced AAF scheme, owners/operators of Singapore-registered tankers can also sign up for the optional Tanker Endorsement Fee (TEF) at an additional flat fee of S\$120 per ship (irrespective of the ship size) for applications and issuance of tanker endorsements.</p> | <p>2) Transfer or transmission of ownership:</p> <p>a. Transfer, transmission of ownership, in relation to a ship required by the Act to be registered: A\$777</p> <p>b. Transfer, transmission of ownership, in relation to a ship on demise charter to an Australian based operator other than an Australian-owned Ship: A\$1332</p> <p>c. Transfer, transmission of ownership, in relation to a ship permitted by the Act to be registered, other than a foreign-owned ship on demise charter to an Australian based operator: \$444</p> <p>3) Grant of certificates:</p> <p>a. Application for grant of new registration certificate under section 21 of the Act: A\$222</p> <p>b. Application for grant of provisional registration certificate under sections 22 of 22A of the Act: A\$333</p> | |

| Element | Singapore Register of Ships | Australian International Shipping Register (AISR) | Taskforce views/Options under consideration |
|---------|-----------------------------|--|---|
| | | <ul style="list-style-type: none"> c. Application for extension of period of currency of a provisional registration certificate: A\$222 d. Supply of certificate of deletion: A\$111 4) Administrative services: <ul style="list-style-type: none"> a. Change of name of registered ship: A\$111 b. Change of home port of registered ship: A\$111 c. Extension of time for lodging documents: A\$167 d. Domestic courier fee: A\$40 e. Courier service outside Australia: A\$80 5) Services relating to a Continuous Synopsis Record (CSR): <ul style="list-style-type: none"> a. Application for a Continuous Synopsis Record: A\$555 b. Reissue of a Continuous Synopsis Record: A\$170 c. Amendments to a Continuous Synopsis Record: A\$390 | |

| Element | Singapore Register of Ships | Australian International Shipping Register (AISR) | Taskforce views/Options under consideration |
|--|--|---|---|
| Decarbonisation or Green Shipping | <p>The Green Ship Programme (GSP)</p> <p>The GSP encourages Singapore-flagged ships to reduce carbon dioxide (CO2) emissions.</p> <ol style="list-style-type: none"> 1) Qualifying Singapore-flagged ships can enjoy a reduction of Initial Registration Fee (IRF) and a rebate on Annual Tonnage Tax (ATT). 2) Ships that exceed the requirements of IMO’s MARPOL Annex VI Phase 3 EEDI by 10% or more will enjoy a 50% reduction on the Initial Registration Fees (IRF) under both normal registration and Block Transfer Scheme (BTS) during the registration of the ship. It will also enjoy a 20% rebate on Annual Tonnage Tax (ATT) payable every year until 31 December 2024. 3) Ships that use low-carbon fuels i.e. LNG or fuels with C_F (conversion factor between fuel consumption and CO2 emission) lower than LNG as its primary fuel will enjoy 75% reduction on the IRF and 50% rebate on the ATT until 31 December 2024. <p>Ships that use zero-carbon fuels (such as ammonia, hydrogen) as its primary fuel will enjoy 100% reduction on the IRF and 100% rebate on the ATT until 31 December 2024.</p> | <p>Nil.</p> | <p>1) Taskforce has considered decarbonisation and green fuels as part of Other Measures.</p> |

| Element | Singapore Register of Ships | Australian International Shipping Register (AISR) | Taskforce views/Options under consideration |
|---------------------------|---|--|---|
| Crewing | Singapore-registered ships can employ officers and crews of any nationality. All crew must meet the standards of the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW) 1978. | Can operate with mixed crews: the majority of crew and officers are not required to be Australian citizens or residents, however, at least two senior positions | Nil. |
| Vessel eligibility | <ol style="list-style-type: none"> 1) Only citizens/permanent residents of Singapore and companies incorporated in Singapore may be registered as owners of Singapore vessels. 2) A vessel may be registered under the ownership of a foreign, or a locally owned, Singapore incorporated company. 3) Registration is open to almost all types of ships, including offshore vessels such as oil rigs and floating platforms, however fishing vessels, hydrofoils and wooden vessels are excluded. 4) Vessels that comply with various relevant requirements laid down in the IMO conventions, are classed with any of the eight classification societies and are less than 17 years old are normally accepted for registration 5) A vessel may be registered under the ownership of a foreign, or a locally owned, Singapore incorporated company. | <ol style="list-style-type: none"> 1) Vessels must be at least 24 metres: <ol style="list-style-type: none"> a. Trading ships that are Australian owned ships b. Trading ships that are wholly owned by Australian residents, or by Australian residents and Australian nationals c. Trading ships that are operated solely by Australian residents, or by Australian nationals, or by both d. Trading ships that are on demise charter to Australian based operators. 2) Vessels not eligible: government vessels, fishing vessels and pleasures craft | |

| Element | Singapore Register of Ships | Australian International Shipping Register (AISR) | Taskforce views/Options under consideration |
|---|---|---|--|
| | <p>6) A vessel owned by a foreign owned company may be registered under the following conditions:</p> <ul style="list-style-type: none"> a. The company must have a minimum paid-up capital of S\$50,000; and b. The vessel must be at least 1,600 GT and be self-propelled. | | |
| Industrial Relations | <p>An individual Seafarers Employment Agreement (SEA) must be entered into between a seafarer and the person employing him. A copy of each seafarer's SEA on board should be carried on board at all times. The SEA shall contain at a minimum contain the particulars as stated in Annex B of MPA Shipping Circular No. 9 of 2014.</p> | <p>The owner of the ship must make a collective agreement with the ship's seafarers' bargaining unit before a ship can be registered on the AISR.</p> | |
| Workforce training and development | <p>More information needed.</p> | <p>Seafarers working on ships registered on the AISR will need to have their qualifications recognised by AMSA.</p> | <p>1) Taskforce is considering options around maritime workforce development and training.</p> |