



Australian Shipowners Association

Senate Economics Legislation Committee

**Tax and Superannuation Laws Amendment (2014 Measures No.5)
Bill 2014**

Submission by:
Australian Shipowners Association

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Australian Shipowners Association

1. Executive Summary

- 1.1. This submission addresses only one part of the Bill - Schedule 2 – Abolishing the seafarer tax offset.
- 1.2. ASA does not support abolishing the seafarer tax offset
- 1.3. The budget impact of abolishing this measure is miniscule however the consequential impact is that it decimates any possibility of a company investing in a ship that would operate under the Australian International Shipping Register (AISR).
- 1.4. The AISR was created to increase Australia's participation in our international trades which would add significant value to the national economy, create jobs and which is strongly in Australia's strategic interest.
- 1.5. For the AISR to work, it needs certainty around the continuance of supporting measures such as the Seafarers Tax Offset. It has only been in operation for two years, much of which has been shrouded in policy uncertainty.
- 1.6. Very real potential exists for the AISR to add value to Australia and it should be given a chance to work.



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2. Introduction

- 2.1. This submission addresses only one part of the Bill - Schedule 2 – Abolishing the seafarer tax offset.
- 2.2. This submission is made on behalf of the Australian Shipowners Association (ASA). ASA represents Australian companies which own or operate:
- international and domestic trading ships;
 - cruise ships;
 - offshore oil and gas support vessels;
 - domestic towage and salvage tugs;
 - scientific research vessels; and
 - dredges.
- 2.3. ASA also represents employers of Australian and international maritime labour and operators of vessels under Australian and foreign flags. Our members collectively employ approximately 6,000 Australian seafarers.
- 2.4. ASA Members are active in dedicated international trades under both Australian and foreign flags.
- 2.5. The Association provides an important focal point for the companies who choose to base their shipping and seafaring employment operations in Australia.
- 2.6. ASA's purpose is to pursue strategic reforms that provide for a sustainable, vibrant and competitive Australian shipping industry and to promote Australian participation in meeting domestic needs for sea transport services and contribution to Australia's international trade to the benefit of Australian shipowners, their customers and the Nation.
- 2.7. ASA's Members are:
- | | |
|---------------------------------------|-----------------------------|
| ANL Container Line | Origin Energy |
| ASP Ship Management | P & O Maritime Services |
| BP Australia | PB Towage |
| Caltex Australia Limited | Rio Tinto Marine |
| Carnival Australia | SeaRoad Shipping |
| EMAS Offshore | Shell Tankers Australia |
| Farstad Shipping (Indian Pacific) | Sugar Australia |
| Maersk Supply Service | Svitzer Australia |
| Mermaid Marine | Swire Pacific Offshore |
| MODEC Management Services | Teekay Shipping (Australia) |
| Port of Newcastle | Tidewater Marine |
| North West Shelf Shipping Service Co. | Toll Marine Logistics |
| | Viva Energy |



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3. Overview

- 3.1. Ships carry 99% of Australia's imports and exports. Australia is an island nation that has a specific, strategic interest in a viable local shipping industry, and the associated maritime skills development and jobs are vital to our national security, including Navy, border protection and port security.
- 3.2. The Seafarers Tax Offset is one of several measures introduced in 2012 that when combined provide the opportunity for Australian businesses to participate in our international shipping activity and in doing so add value to the economy, secure major trade routes and grow employment opportunities for the most highly trained Australian maritime staff.
- 3.3. Only 4 ships involved in Australia's international trade are Australian, accounting for less than 0.5% of our entire international trading task.
- 3.4. The reason Australian ships are not engaged in international activities is that they are not cost competitive due to a number of factors, chief amongst them the high cost of Australian labour.
- 3.5. The Australian International Shipping Register (AISR) was established in 2012 and is designed to allow Australian companies to own and operate ships that are internationally competitive.
- 3.6. The Seafarers Tax Offset provides a rebate to the employer of Australian staff for part of the income tax withheld while working in international trades, thereby making the employment costs more comparable with international seafarers.
- 3.7. The AISR requires that the two most senior staff (Master and Chief Engineer) working on board are Australian. Seafarers from other nations that would otherwise fill these roles are not subject to income tax in their home countries.
- 3.8. For the AISR to be competitive it is essential that the employment costs for Australian staff are comparable with their foreign, tax-free, colleagues. The Seafarers Tax Offset achieves this.
- 3.9. The Budget Paper states: "The Government will achieve savings of \$12.0 million over three years by abolishing the Seafarer Tax Offset from 1 July 2015. In underlying cash terms, the saving is \$8.0 million over the forward estimates period, due to the timing of the tax offset claims."
- 3.10. The budget impact of abolishing this measure is miniscule however the consequential impact is that it decimates any possibility of a company investing in a ship that would operate under the AISR – thus losing the potential to increase Australia's participation in our international trades which would add significant value to the national economy, create jobs and which is strongly in Australia's strategic interest.
- 3.11. For the AISR to work, it needs certainty around the continuance of supporting measures such as the Seafarers Tax Offset. It has only been in operation for two years so far. It should be given a chance to work.
- 3.12. The creation of an internationally competitive Australian shipping capability (via the AISR, the Seafarers Tax Offset and other measures) was supported by all key industry participants during the extensive shipping reform process that concluded in 2012.

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4. The Skills Requirement

- 4.1. The Seafarers Tax Offset is one element in a suite of policy settings designed to encourage greater Australian participation in international trade by making the cost of employing Australian seafaring officers more competitive with officers from other nations.
- 4.2. Similar income tax arrangements are offered as an incentive for employers and individuals in many other developed countries (Belgium, Denmark, Finland, France, Germany, Greece, Netherlands, Norway and Spain to name a few).
- 4.3. The repeal removes a significant incentive for businesses to base their international trading operations in Australia and undermines a key incentive for vessels to be registered on the AISR.
- 4.4. In addition to the investment and operation of ships from Australia, the potential for the employment and training of senior seafaring staff in international activities adds greatly to the national capability.
- 4.5. Failure to retain this measure, which is no more beneficial than is provided to seafarers from many other OECD nations, greatly reduces the employment prospects of Australians in these highly skilled maritime roles.
- 4.6. The absence of an Australian skilled maritime workforce threatens the ability of significant infrastructure to work safely and efficiently.
- 4.7. Qualified Engineer and Deck Officers are needed domestically in a number of shore-based roles that are strategically important for the safety, security and efficient operation of our ports and maritime trade such as:
 - Maritime Regulators & Safety Surveyors (e.g. Australian Maritime Safety Authority)
 - Marine Pilots (in ports and through the Great Barrier Reef Marine Park and Torres Strait)
 - Harbour Masters
 - Tug Boat operations
 - Training Institutions
 - Defence forces
 - Customs and Border Protection

5. Benefits of strong, sustainable Australian participation in the shipping industry

- 5.1. A strong, sustainable local Australian presence in the shipping industry offers many benefits including:
 - overall improvement to Australia's economy;
 - improved economic and employment diversity;
 - provision of the skills required for a maritime nation to function; and
 - increased border protection and defence capability.



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- 5.2. Improve Australia's economy via growth in national shipping activity so that we can provide/control our own freight services and the growth of the maritime economic cluster, which would invariably result from a stronger local shipping industry. A recent report by Oxford Economics¹ shows that in the UK in 2011 the total (including the direct and induced impacts) contribution of the shipping industry was £12.5 billion in GDP, 287,000 jobs and £2.8 billion in tax receipts. Further, the impact of the economic cluster that has developed around the UK shipping industry via the establishment of professional and associated services contributed 55,000 jobs, £3.7 billion in GDP and £1.1 billion in tax receipts. The UK industry underwent a program of rejuvenation in 2000 involving the adoption of positive policies on investment, training and the British shipping registry.
- 5.3. Economic diversity is provided not only via direct shipping activities but also via the resultant maritime cluster activities. This includes employment for approximately 40,000 people across the nation².
- 5.4. A complex economy with a broad economic base needs a range of different skills and an island nation with considerable export markets is always going to be reliant on shipping for trade and prosperity. The skills provided by the shipping industry are strategic in that they provide the knowhow required for a maritime nation to function - to run Australia's ports and provide safety and environment regulation.
- 5.5. Australia's capacity to participate in global trade and protect Australian community standards and interests is reliant upon having professional shipping expertise available to fill strategic roles. Australia would expose itself to great risk if it were to rely solely on immigration to fill those roles.
- 5.6. New opportunities for work and training of Australian seafarers must be secured as the decline in the domestic fleet has impacted workforce sustainability across the broader maritime sector.
- 5.7. Having ships on the AISR and having Australians employed on those ships creates an Australian presence and capacity "on the water" and increases border protection via Merchant Navy linkages with defence and customs. This relates to the ability of the Australian Government to requisition assets when required; access to commercial and logistical shipping expertise and the national security benefits of having Australian presence on the high seas and particularly around the coast.

6. Clarification of points raised during debate in the House of Representatives

- 6.1. Several comments were made by Members during the debate on this matter in the House of Representatives that require clarification.
- 6.2. In the interests of absolute clarity, ASA is not now nor ever has been an affiliated organisation to the Australian Labor Party.
- 6.3. The seafarer tax offset is a rebate to employers. The employees are not beneficiaries of this measure. Their take home pay remains unchanged.

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- 6.4. The benefit of the rebate is to the employer by lowering the overall employment cost to make these employees cost competitive with international seafarers (who are subject to similar arrangements in their home countries).
- 6.5. Australian seafarers working on Australian flagged vessels in international trades are not paid 'inflated wages'. The wages paid are underpinned by the Seagoing Industry Award and in line with wages paid by other employers of similarly skilled people in other areas of the Australian maritime sector.
- 6.6. Suggestions that Australia's maritime capacity has shrunk by two-thirds as a result of shipping policy settings introduced in 2012 are misleading.
- 6.7. Where there has been a decline it is readily attributable to the structural change occurring to the national economy as a result of the decline of the Australian manufacturing sector. Several major manufacturing companies had a dedicated shipping task dedicated as part of their business. For example, the Alcoa decision to close the Point Henry aluminium smelter resulted in a ship leaving the Australian coast; the decision by Bluescope to close the hot strip mill in Western Port resulted in a ship leaving the coast; etc.
- 6.8. Suggestion that the 2012 shipping reforms were directed toward the union movement overlook the importance of providing a competitive environment for Australian businesses involved in shipping to operate from.
- 6.9. The 2012 shipping reforms were critical for Australian businesses that own and operate ships in direct competition with foreign ships to become more cost competitive.
- 6.10. Many nations (including OECD nations, EU members, USA, Japan, Singapore to name but a few) offer very attractive arrangements for shipowners to conduct businesses in their jurisdiction. This is recognition of the economic reward that is available by having shipping form part of a national economy.
- 6.11. Shipping is a highly mobile business and internationally shipowners will structure their business arrangements so as to maximise returns to their shareholders.
- 6.12. Prior to the 2012 measures being put in place, Australia offered no such competitive arrangement and Australian businesses operating ships could not compete.
- 6.13. The 2012 measures were designed to assist Australian businesses involved in shipping by levelling the playing field between Australian businesses and international businesses.
- 6.14. ASA advocates that further changes are required to provide a truly level playing field.

¹ Oxford Economics (2012). "The Economic Impact of the UK Maritime Service Sector"

² Thompson Clarke Shipping (2002). "Maritime Skills Availability Study"