



AIMPE

Australian Institute of
Marine and Power Engineers
HEAD OFFICE

The Hon Kevin Rudd MP

1st July 2009

Prime Minister

Fax: (07) 3899 5755

Dear Prime Minister,

Coastal Shipping – Rio Tinto Update

As you may be aware AIMPE made submissions to the HoR Infrastructure & Transport Inquiry into Coastal Shipping last year. Subsequently we have been actively involved in consultations carried out by the Department of Infrastructure, Transport, Regional Development and Local Government – in addition to meeting with Minister Albanese about shipping matters.

I thought that you might be interested to hear about what is happening in coastal shipping now.

Attached is a copy of an update I have prepared for our members.

AIMPE understands that Minister Albanese is considering legislative action shortly.

We would appreciate the opportunity to talk with you further about these matters.

regards,

Martin Byrne
Assistant Federal Secretary,
Australian Institute of Marine & Power Engineers,
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RIO Tinto's steamship fleet

After many years of faithful service the four coal-fired steamships that have carted bauxite from Weipa to Gladstone for over 25 years, appear to be on the path to retirement.

Name of ship	Gross tonnage	Type of ship	Year of build	Flag
RIVER BOYNE	51035	Ore Carrier	1982	Australia
RIVER EMBLEY	51035	Ore Carrier	1983	Australia
FITZROY RIVER	50144	Bulk Carrier	1983	Australia
ENDEAVOUR RIVER	50144	Bulk Carrier	1983	Australia

Rumours are rife that the Fitzroy River will be laid up or otherwise disposed of in the second half of 2009. ASP Ship Management which operates the ships for Rio Tinto Marine [RTM] has not been able to confirm the departure date despite requests from AIMPE.

The Australian flag steamship fleet has not been able to keep up with the demand for bauxite in Gladstone since the expansion of refining capacity in the central Queensland industrial hub. As a result the current vessels have been supplemented by vessels from the new fleet.

RIO Tinto's new fleet

Name of ship	Gross tonnage	Type of ship	Year of build	Flag
RTM PIIRAMU	53988	Bulk Carrier	2008	United Kingdom
RTM TWARRA	56000	Bulk Carrier	2009	United Kingdom
RTM WAKMATHA	53988	Bulk Carrier	2007	United Kingdom
RTM WEIPA	53988	Bulk Carrier	2008	United Kingdom

Although the new-buildings do have somewhat larger capacity, the critical difference is not to be found in the gross tonnage of the new vessels but in the flag of registration. The vessels are all UK flag ships and take advantage of the tonnage tax introduced by the poms several years ago.

Since the voyage is between Weipa and Gladstone, this means that it is classified as an intra-State voyage. As a result, the operator – ASP Ship Management – is not required to seek Single Voyage Permits or Continuing Voyage Permits from the Coastal Shipping section of the Federal Department of Infrastructure and Transport. Instead, RTM has been making increasing numbers of applications for Restricted User Flags [RUFs] to Maritime Safety Queensland [MSQ] for their new bulkies to carry the

bauxite cargoes. The increasing number of RUF voyages does not appear on the statistics for Permit ships which have been made available by the Federal Government since August 2008.

Over a year ago the Rio Tinto website carried the following information:

Rio Tinto Marine has taken delivery in Japan of the first of five new bulk carriers costing a total of US\$200 million. Like haul trucks on water, the ships will principally be used for carrying bauxite from the Weipa mine to Gladstone alumina refineries under a long term freight contract with Rio Tinto Aluminium.

It is apparent now that RTM together with ASP SM are in the process of a phased transition from 100% Australian flag shipping to meet their coastal requirements to 100% foreign flag and foreign crew.

If allowed to happen this will represent another major body blow to Australian coastal shipping.

Martin Byrne

The Hon Kevin Rudd MP

7th July 2009

Prime Minister

Fax: (07) 3899 5755

Dear Prime Minister,

Coastal Shipping – Rio Abandoning the Australian Flag

AIMPE has been advised that the Australian flag vessel “Fitzroy River” will very shortly be withdrawn from the coastal bauxite trade between Weipa and Gladstone which it has serviced for around 25 years.

It is now clear that Rio/QAL are using foreign flag ships with Queensland Restricted Use Flags [RUFs] to replace the Australian flag ships currently in the trade [see enclosure]. Indeed AIMPE members report that the Australian flag ships are being slowed down and held at anchor to allow the foreign ships to have priority.

This is a continuation of the phased abandonment of Australian coastal shipping which Australia witnessed under the previous Federal Government. If allowed, the Rio/QAL strategy will lead to over 50% of Australian coastal cargoes being carried by foreign flag vessels with foreign seafarers.

This is clearly totally inconsistent with the policy objective of the ALP National Platform:

- *Ensure a strong and viable Australian coastal shipping industry which employs Australian seafarers working under the Australian flag with Australian terms and conditions of employment;*

Australia needs immediate, decisive action from the Federal Government to stop the rot and prevent the wholesale abandonment of the remaining Australian flag fleet.

Regards,

Martin Byrne
Assistant Federal Secretary,
mbyrne@aimpe.asn.au

RIO flogging Queensland ‘permits’

Rio Tinto Marine is flogging the Queensland ‘permit’ system to meet the significantly expanded bauxite trade from Weipa to Gladstone.

The Queensland ‘permits’ are issued under the Transport Operations (Marine Safety) Regulation 2004 and are known as Restricted Use Flags [RUFs]. This is a similar device to a Single Voyage Permit under the Commonwealth Navigation Act however the RUF concept is applicable to intra-State voyages – like the Weipa to Gladstone run. Under the RUF system, foreign flag vessels can carry cargoes between two Queensland ports without Australian crews and without complying with Australian laws.

Figures now provided by Maritime Safety Queensland show that Rio’s use of RUFs cannot be regarded as “restricted” under any reasonable interpretation. Since MSQ started consulting with the maritime unions in November 2008 until the end of April 2009 some 33 RUFs for carriage of bauxite were issued.

Vessel	Cargo	Charterer	Period of RUF	Port of Loading	Port of Discharge
Imperial	Bauxite	Rio Tinto	07/11 - 04/12	Weipa	Gladstone
Navios Galaxy 1	Bauxite	Rio Tinto	12/11 - 09/12	Weipa	Gladstone
Maritime Anita	Bauxite	Rio Tinto	17/11 - 14/12	Weipa	Gladstone
RTM Wakmatha	Bauxite	Rio Tinto	25/11 - 22/12	Weipa	Gladstone
RTM Weipa	Bauxite	Rio Tinto	26/11 - 23/12	Weipa	Gladstone
Darya Shanthi	Bauxite	Rio Tinto	26/11 - 23/12	Weipa	Gladstone
Prabhu Yuvika	Bauxite	Rio Tinto	27/11 - 24/12	Weipa	Gladstone
Pacific Breeze	Bauxite	QAL	01/12 - 28/12	Weipa	Gladstone
Nord Galaxy	Bauxite	QAL	05/12 - 01/01	Weipa	Gladstone
Million Trader II	Bauxite	QAL	10/12 - 06/01	Weipa	Gladstone
RTM Wakmatha	Bauxite	Rio Tinto	23/12 - 19/01	Weipa	Gladstone
Prabhu Puni	Bauxite	Rio Tinto	14/12 - 10/01	Weipa	Gladstone
RTM Weipa	Bauxite	Rio Tinto	24/12 - 20/01	Weipa	Gladstone

Star of Sawara	Bauxite	Rio Tinto	01/01 - 28/01	Weipa	Gladstone
Darya Shanthi	Bauxite	Rio Tinto	09/01 - 04/02	Weipa	Gladstone
RTM Piiramu	Bauxite	Rio Tinto	16/01 - 12/02	Weipa	Gladstone
RTM Wakmatha	Bauxite	Rio Tinto	20/01 - 16/02	Weipa	Gladstone
Darya Shanthi	Bauxite	Rio Tinto	05/02 - 04/03	Weipa	Gladstone

Trenton	Bauxite	Rio Tinto	09/02 - 08/03	Weipa	Gladstone
Powhatan	Bauxite	Rio Tinto	15/02 - 14/03	Weipa	Gladstone
RTM Weipa	Bauxite	Rio Tinto	16/02 - 15/03	Weipa	Gladstone
RTM Wakmatha	Bauxite	Rio Tinto	17/02 - 16/03	Weipa	Gladstone
FD Jacques Graubart	Bauxite	Rio Tinto	27/02 - 26/03	Weipa	Gladstone
Genco Surprise	Bauxite	Rio Tinto	05/03 - 01/04	Weipa	Gladstone
RTM Wakmatha	Bauxite	Rio Tinto	17/03 - 14/04	Weipa	Gladstone
RTM Piiramu	Bauxite	Rio Tinto	16/03 - 12/04	Weipa	Gladstone
Lowlands Ghent	Bauxite	Rio Tinto	15/03 - 11/04	Weipa	Gladstone
Eleni	Bauxite	Rio Tinto	01/04 - 28/04	Weipa	Gladstone
RTS Pioneer	Bauxite	Rio Tinto	06/04 - 03/05	Weipa	Gladstone
RTM Wakmatha	Bauxite	Rio Tinto	15/04 - 12/05	Weipa	Gladstone
Navios Galaxy 1	Bauxite	Rio Tinto	19/04 - 16/05	Weipa	Gladstone
RTM Piiramu	Bauxite	Rio Tinto	13/04 - 10/05	Weipa	Gladstone
Torm Skagen	Bauxite	Rio Tinto	30/04 - 27/05	Weipa	Gladstone

6 of the RUFs have been issued to RTM for the Wakmatha which is UK flag but carries an Australian crew. The other 27 RUFs were issued for other vessels including the Weipa and the Piiramu. None of these other vessels carry Australian personnel.

The MSQ's Guidelines for RUFs state that

"4.1.2 Generally RUFs will not be issued successively. If this is required, a business case must be presented to the relevant Maritime Safety Queensland office outlining the reasons. The issuing of successive RUF's would normally be restricted to dredging operations. The business case is to be presented before subsequent applications are made."

Despite the guidelines Rio and its 80% owned subsidiary, Queensland Alumina Ltd, have applied for 33 RUFs in a six month period for the same type of cargo between the same two ports – Weipa and Gladstone. That is an average of 5.5 RUF ships per month for the same operator and the same cargoes between the same two ports. It is beyond belief that anyone could argue the Rio is not using the RUF device in a successive fashion. Indeed on some occasions Rio have used a single RUF to carry out more than one voyage:

We have on charter the foreign flag vessel M/V RTM Weipa, which we have scheduled to perform two consecutive voyages of bauxite from Weipa to Gladstone, each voyage will lift about 83,000mt of bauxite.

AIMPE is not aware of any business case being presented except the standard formula:

There is no suitable Australian flagged vessel available that meets the size, vessel type and dates needed for carrying bauxite from Weipa to Gladstone.

Or the alternative set of words:

These shipments are a requirement to maintain the stockpile of bauxite for Rio Tinto Aluminium-Yarwun and QAL refineries to meet production requirements.

Clearly this operation is moving a base load cargo that should come squarely within the domestic freight sector. Coastal shipping policy cannot allow such an abuse of the system to continue indefinitely. Excuses such as filling in for dry-dockings or supplementing international trades will not wash. This is not a 'developing' trade. It is a consistent and routine bulk transport task totally within the Australian domestic economy.

With several of the vessels owned by Rio Tinto, it cannot be argued that this is an issue of capital expenditure either. The ships have been built. The capital has been spent and they are there operating in the trade.

AIMPE has declined to approve the latest RUF application in these circumstances. Rio Tinto appear to have decided that the policy settings for coastal shipping are so loose that they can utilise foreign shipping – including UK flag vessels receiving the benefit of the UK tonnage tax – to cart the bauxite from Weipa to Gladstone.

This is another clear example of the critical need for a new coastal shipping policy – a national policy that is based on a single national maritime jurisdiction. A new shipping that restores a strong Australian shipping industry on the Australian coast.

Martin Byrne

The Hon Kevin Rudd MP
Prime Minister
Fax: (07) 3899 5755

15th July 2009

Dear Prime Minister,

The Economic Impact of Australia's Shipping Policies

Further to AIMPE's recent correspondence about the adverse impacts of Rio Tinto's latest decisions about its coastal shipping operations, I write to draw your attention to the broader economic consequences of Australia's laissez faire shipping policies.

Enclosed is an extract from AIMPE's submission to the House of Representatives Committee Inquiry into Coastal Shipping [2008]. The extract includes ABS data relating to the International Trade in Goods and Services. The net freight transportation services deficit was over \$7 billion in 2006-07. A very large majority of this amount is due to shipping services payments overseas. The subsequent figures for 2007-08 indicate that the net amount was close to \$8 billion.

AIMPE believes that this cost is a chronic burden on the Australian economy which is due in large part to the Federal Government's policy settings.

In the international trades Australian exporters and importers benefit from cheaper freight rates because they use shipping which is largely exempt from corporate income tax. Tonnage tax schemes ensure only a nominal amount of tax is paid. In addition the seafarers on these ships are usually exempt from the payment of income tax on their earnings. This ensures highly competitive labour costs even in a period of severe global shortage of qualified officers [especially engineer officers].

Now Rio Tinto has decided to exploit these international shipping cost advantages in coastal trades. Rio is using UK flag vessels with Indian crews to operate vessels on dedicated coastal trades. They get the UK tonnage tax and the seafarers pay no income tax.

The loser is the Australian Treasury – and the Australian Taxpayers.

AIMPE asks that you support a new shipping policy that ensures the Australian shipping has priority in the coastal trades and end the exploitation of permits and RUFs [Qld permits].

Yours faithfully,

Martin Byrne
Assistant Federal Secretary

Economic Benefits

The economic role of shipping in the Australian economy is enormous. 99% of Australia's exports and imports are carried to and from Australia by ships. If not for shipping Australia would not have developed its export industries of wool and wheat in the 19th century. Without shipping the iron ore and coal export industries could not have developed. The hard reality however is that almost all of this enormous international shipping task is carried out by foreign flag shipping.

The majority of the far smaller coastal shipping task is still carried out by Australian flag shipping but foreign flag shipping is increasing its share of the coastal shipping task.

As a consequence the financial benefits attributable to the freight task are moving out of Australia at a strong and increasing rate. The Australian Bureau of Statistics reported in its 2007 Trades Statistics the following:

	2004-05	2005-06	2006-07
	\$m	\$m	\$m
Freight Services credits	704	608	607
Freight Services debits	-7,500	-7,776	-8,044

Extracted from ABS International Trade in Goods and Services, 5368.0, October 2007.

The ABS figures demonstrate that Australia is earning less and less by way of freight credits and paying more and more. Australia's Freight Services imbalance is a chronic, long term issue that needs to be recognized by the Committee and Government as such. There are few other individual components of Australia's trade statistics which are so clearly, consistently and starkly trending against Australia's financial best interests.

It also needs to be recognized that this chronic freight services deficit is a product of Government policies. A change in domestic coastal shipping policies will not correct the imbalance but it may slightly reduce the magnitude of the freight services deficit. AIMPE submits that a positive set of policies for domestic coastal shipping is an essential first step in a long term process.

Australia's international shipping policies would need fundamental review to produce any further reduction in the massive freight services deficit. AIMPE submits to the Committee that a subsequent process needs to be undertaken to examine the very difficult issues surrounding the international shipping policy settings. These were addressed by the IRAS Report however no action was taken by the Federal Government at the time.

The Australian Maritime Group [AMG] commissioned research by Meyrick and Associates which led to a 2007 report titled "International and Domestic Shipping and Ports Study". The projections contained in the Meyrick Report include:

1. international container traffic to increase from 4.3 million TEU to 12 million TEU by 2020;

2. iron ore exports to increase from 272 million tones to around 510 million tones by 2020;
3. coal exports to grow from 243 million tones to 390 million tones by 2020;
4. alumina exports to grow from 16 million tones to 29 million tones in 2020.

During this same period, domestic freight movement is also likely to grow significantly. This is likely to apply both to bulk commodities and non-bulk freight.

The total shipping task is set to double if not triple in slightly more than a decade. The economic consequences of retaining the existing set of policy settings will be a doubling or tripling of the freight services deficit by 2020. That is Australia faces a freight services deficit in the order of \$20 billion per annum [in 2007 dollars] by 2020.

Shipping is a key strategic industry which has been the basis of the economic strength of nations for decades, centuries indeed millennia. Australia's economic survival thus far has been attributable to an ability to supply initially agricultural and subsequently mineral commodities to a series of keen buyers [e.g. UK, Japan and China]. Australia has chosen a set of policies for Australia's shipping needs which sees these exports and hence the economic success of the nation built on services supplied by the ships of other countries. These services are provided largely by Flag of Convenience ships which are operated in a low cost, low tax environment. Yet the sheer quantity of the shipping services that Australia generates causes the chronic freight services deficit revealed in the ABS figures. AIMPE submits that Australia must revise its policy approach towards Australia's international shipping task or else risk an unsustainable freight services deficit.