

20th August 2015

Committee Secretary

Senate Standing Committees on Rural and Regional Affairs and Transport

PO Box 6100

Parliament House

Canberra ACT 2600



AUSTRALIAN
ALUMINIUM
COUNCIL LTD

PO Box 63, Dickson
ACT 2602

Ph: 6267 1800

Fax: 6267 1888

info@aluminium.org.au

Email: rrat.sen@aph.gov.au (submitted online)

ALUMINIUM COUNCIL SUBMISSION TO SENATE COMMITTEE INQUIRY: SHIPPING LEGISLATION AMENDMENT BILL 2015

Thank you for the opportunity to provide a submission to the Senate Rural and Regional Affairs and Transport Legislation Committee inquiry into the Shipping Legislation Amendment Bill 2015 [Provisions]. This submission is made on behalf of the bauxite mining, alumina refining, and aluminium smelting sectors.

Summary

We welcome the proposed changes in the Shipping Legislation Amendment Bill 2015 that will allow our member companies access to shipping at more internationally competitive rates, as well as give them the flexibility to secure vessels for single voyages.

While the Council's member companies are largely supportive of the proposed changes to coastal shipping regulations, we are seeking some amendments regarding emergency provisions for vessel permits.

Currently, only ship owners can apply for permits with a waiting time of up to 10 days. In the event of an emergency when a chartered ship is unavailable, there is currently no provision for either the shipper to secure a permit or an owner to have an expedited (e.g. 24-48 hours) permit approved.

The introduction of emergency permit measures would reduce risks to supply where unforeseen events have occurred in the supply chain.

Impact of Previous Ineffective Regulations on the Industry

The Australian bauxite, alumina and aluminium industry relies on shipping as an essential mode of transport in the production supply chain (see attachment). Vessels are used to transport both bauxite and alumina to refineries and smelters respectively, as well as to carry other inputs that are essential to the operation of the facilities. Interstate shipping may also be the mode of transport used to move the finished product from aluminium smelters. Timeliness of delivery is of great importance to operations and costs of freight are substantial for the companies involved.

The coastal shipping legislation and regulations introduced in 2012 were ineffective, inflexible and costly to industry. Our hope is that the proposed legislation will allow shippers (our member companies) to operate without risk to supply.

Council members experienced an increase in shipping costs up to double previous levels at the commencement of the current regime. The impact of this on our industry was considerable – we have annual interstate coastal shipping requirements of approximately 3.5 million tonnes, with this figure expected to rise significantly in coming years. The viability of refineries and smelters is impacted by ineffective regulations both financially, through increased shipping costs, and operationally, through the risk of disruption to input supply caused by reduced flexibility of shipping arrangements.

The current requirement to apply for a minimum of five voyages under a Temporary Licence and to lock-in loading dates and ports in advance led to situations where alumina supply at smelters reached critically low levels. We hope the legislation introduced will include provisions to help us avoid this in the future.

The current regime also led to what was essentially a General Licence holder monopoly for the dry bulk market. This produced higher shipping costs for our industry and a perverse situation where the General Licence holder could use foreign flagged vessels for journeys at a higher cost than could be accessed directly by the customer. This problem will be improved with the removal of the “notice in response” to a temporary licence approval and the removal of the need for foreign vessels to apply for Government approval to change voyage paths – this encourages greater competitiveness and a more efficient coastal shipping market.

Many of the proposed changes to regulations will improve the cost-effectiveness and flexibility of alumina shipping and materially improve the viability of Australian smelters. Similarly, Australia’s alumina refineries stand to gain much needed relief from unnecessary cost burdens.

Response to Proposed Legislation

The primary policy objective for regulation of coastal shipping should be to provide for safe, reliable, flexible, efficient and cost-effective shipping services. We are pleased to see that the proposed legislation has been developed with this objective in mind. Our members support the aim to streamline the permitting processes for both Australian and foreign vessels, and support the proposal to remove the ‘notice in response’ process from the Act. However, we are concerned with one aspect of the legislation – the lack of provision for emergency permits.

The transit period to reposition a vessel in Australia from Asia (the regional shipping hub) will typically last a week – this means that a longer permit waiting time of 10 days will increase vessel transit time to 17 days (from the hub port) before the journey can reasonably go

ahead – this will be unworkable for charterers in many circumstances without an emergency permit provision with a shorter waiting time (e.g. 24-48 hours). Shipping requires a fast turnaround, with charterers and receivers customarily ‘fixing main terms’ (reaching a deal to guarantee the vessel is committed to the journey) within 24 hours in order to ensure vessels are used effectively and materials are transported to destinations in a timely manner.

Additionally, vessels may also have to be substituted due to weather delays, port congestion and force majeure events. Without an ability to qualify a vessel within 24 – 48 hours, disruptions to production supply become a real risk for Australian businesses, including those of our members, with impacts in excess of \$100m. For these reasons, *it is critical that a mechanism is in place to provide permits to vessels within a 24-48 hour period.* The vessels used are the same foreign flag vessels that are already allowed to load or unload in Australia (for imports and exports) – hence there should be no safety or structural reason requiring an extra 10 business days to check customary registers and process the licence application payment in the event of a supply emergency.

A higher rate could be payable in circumstances where an emergency permit is required – much like an emergency passport. A lack of an emergency permit provision will force shippers into late vessel substitutions and possibly create serious supply issues.

The possible supply flow problems associated with the 10 day waiting period in some circumstances could be easily avoided by providing the necessary emergency permit provision from the outset.

Conclusions

- Operations of the Australian bauxite, alumina and aluminium industry were negatively impacted, administratively and financially, by previous coastal shipping regulation (Coastal Shipping Act 2012).
- Coastal shipping regulation should take care to promote access to safe, reliable, flexible and cost-efficient shipping services, an outcome largely reflected in the proposed changes, of which we are therefore generally supportive.
- However, we understand that a waiting period of up to 10 days is proposed – this will be too long in some cases and will risk supply, therefore critically impacting production.
- We suggest an emergency permit provision with permits in these cases provided within 24-48 hours in order to protect the flow of supply.

Thank you for your consideration of these matters. If you have any questions regarding this submission, please contact me.

Yours sincerely



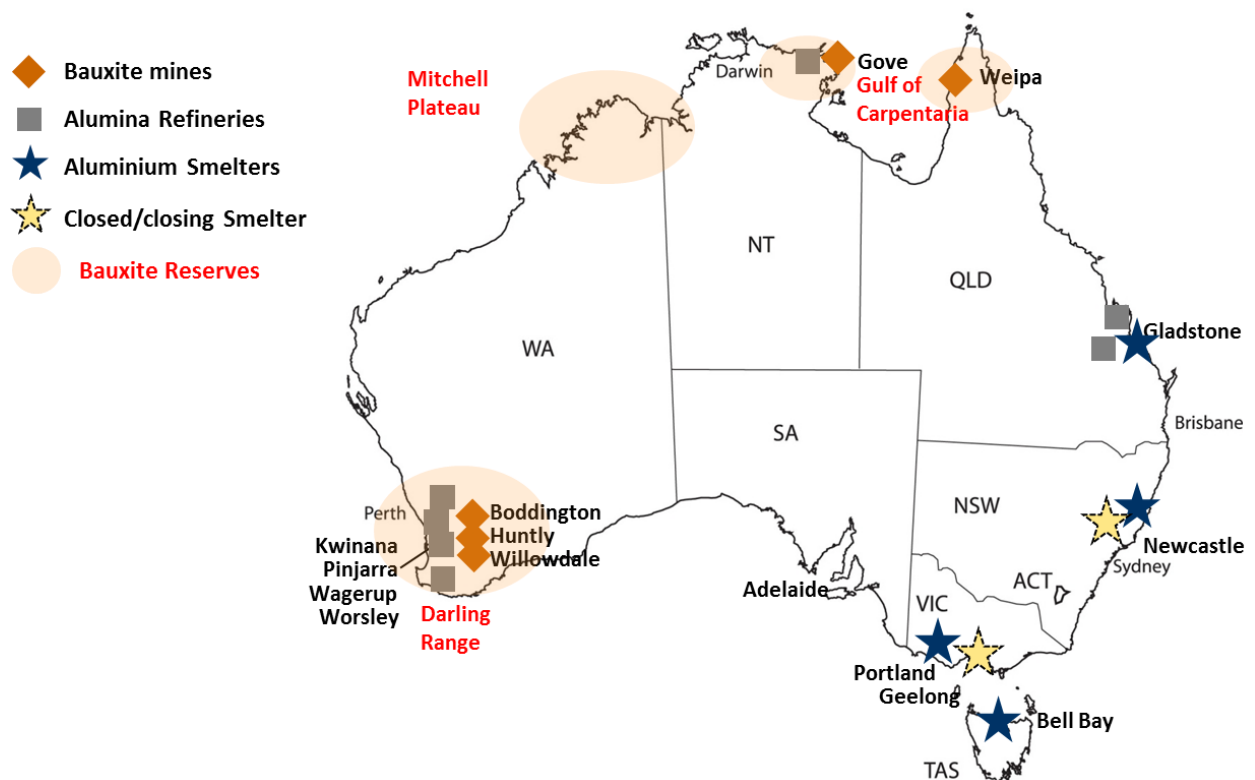
MILES PROSSER
EXECUTIVE DIRECTOR
AUSTRALIAN ALUMINIUM COUNCIL
T 02 6267 1800
M 0429 923 605
miles.prosser@aluminium.org.au

ATTACHMENT

AUSTRALIA'S ALUMINIUM INDUSTRY OVERVIEW AND COMMERCIAL OUTLOOK

Background

The aluminium industry directly employs more than 14,000 people in skilled and well-paid jobs. The industry sustains the livelihoods of more than 50,000 households, most in regional Australia. We are responsible for more than \$9 billion of export earnings for the Australian economy and make up a substantial part of the economic activity in regions where we operate including Arnhem Land, Gladstone, south-west Western Australia, Hunter Valley, Cape York, Portland and Tasmania.

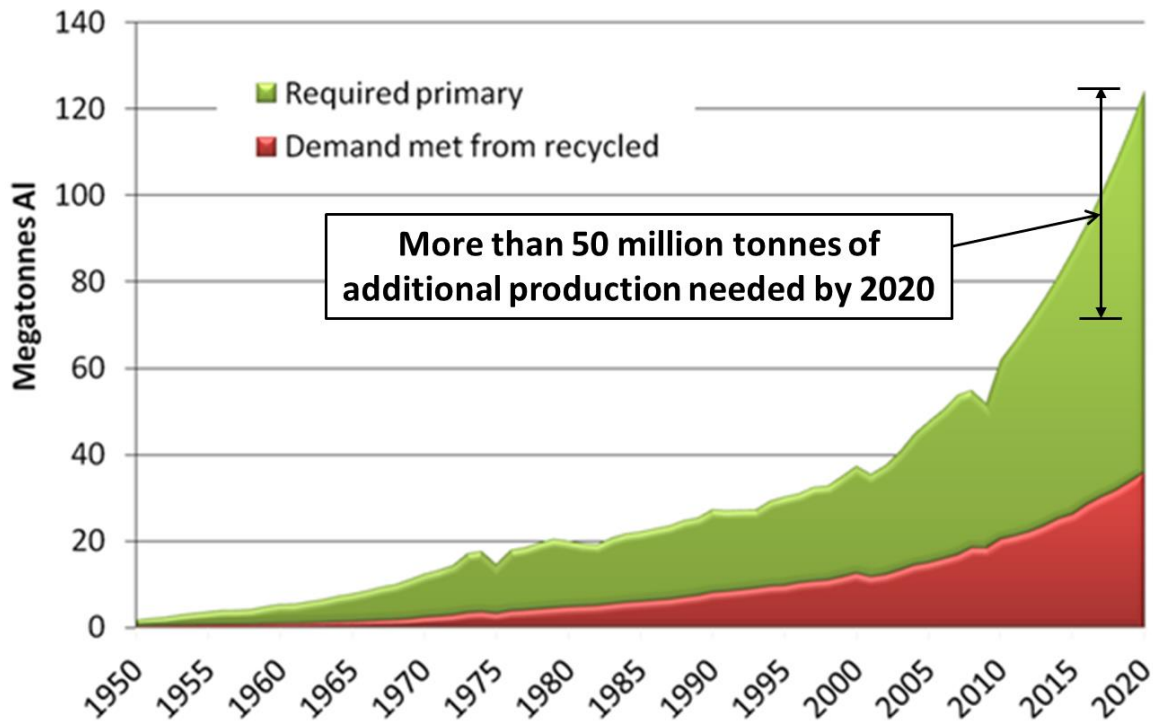


The Position of the Aluminium Industry

The aluminium industry has a positive global outlook as manufacturing trends continue to move towards more efficient and lightweight transport systems, construction systems and food production chains. A strong correlation between living standards (e.g., GDP per capita) and aluminium consumption is projected to lead to steeply rising demand in highly populated countries such as China, India and other parts of Asia.

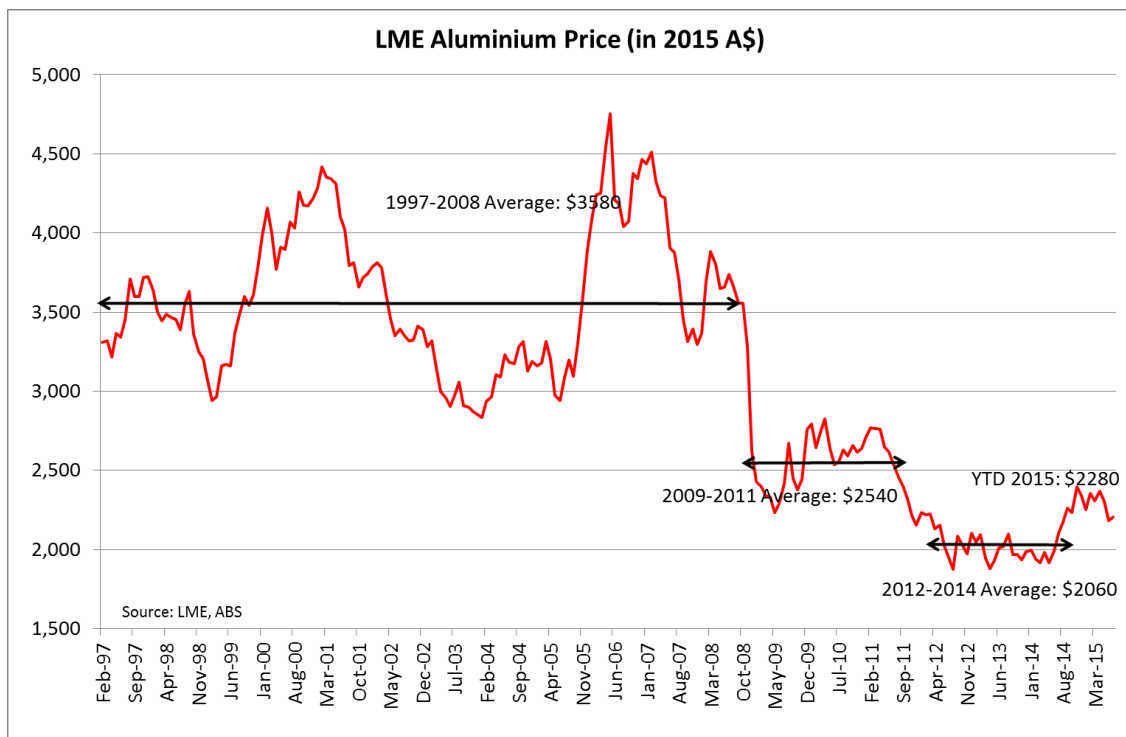
The bauxite-alumina-aluminium supply chain in Australia can have a positive and expansive future driven by rapidly rising global demand for aluminium and Australia's particular strengths; including major high-quality bauxite reserves, energy resources, and a stable investment environment.

As shown in the following graph, an additional 50 million tonnes of smelting capacity (almost doubling current production) is thought to be required by 2020, even allowing for increasing rates of recycling.



Source: International Aluminium Institute

However, this positive outlook for the industry is tempered by the “worst of conditions” in the short term in Australia. A current oversupply and a significant stockpile have led to low aluminium prices for a number of years. This situation has been exacerbated in Australia by the high value of our currency and rising input costs. Overall, the industry has been under considerable fiscal pressure over recent years. The combined impact of the low metal price and high Australian dollar meant that in 2012-2014, aluminium price was 20% lower than over the previous three years (the GFC), which in turn was 30% lower than the average of the prior decade, as shown in the following graph.



Sources: London Metals Exchange, Australian Bureau of Statistics

Although there has been a slight improvement in 2015, the real price for aluminium in Australian dollars is still 35% lower than the pre-GFC historical average.

In February 2014, Alcoa announced its decision to close the Point Henry aluminium smelter in Geelong, Victoria. This follows the closure of Hydro's Kurri Kurri smelter in the second half of 2012. In November 2013, Rio Tinto announced a decision to suspend operations at the Gove alumina refinery in the Northern Territory.

Existing smelters and refineries in Australia are still under intense short term pressure. However, survival in the current situation will mean these smelters have a viable future as aluminium prices and the Australian dollar settle into more regular patterns over the coming years.