Digest of Bill

Purpose

To provide for the payment of a taxable grant to owners of Australian trading ships as part of a package aimed at improving the efficiency of Australian shipping.

Background

Australian ships operate in the competitive international liner, dry bulk and tanker trades. Australian industries are dependent on efficient shipping to keep transport costs in reasonable proportion to finished product costs. This is particularly so for those industries which depend on the movement of raw materials for which the cost of extraction is relatively small.

The Crawford Report, Revitalisation of Australian Shipping (1982), indicated that only 30% of Australia's international trade was being carried out by Australian ships. The Crawford Committee examined the subsidies provided to foreign shipowners which had enhanced their competitiveness during a period of world-wide downturn in shipping. Until the time of the Report, investment allowances existed for Australian ships employed in coastal trades, but not for ships in overseas trades. The Income Tax Assessment Amendment Act (No. 5) 1983 gave effect to the major recommendations in the Report to extend the 'Investment Allowance' to ships not trading solely on the Australian coast; and provide for a depreciation deduction for eligible new, Australian-owned, crewed and operated ships.

A direct link was created between taxation incentives and crewing levels in that the allowance would be payable only where reduced crewing levels were implemented and maintained.

Since these measures were implemented, 12 new ships have been ordered to replace just over 10% of the Australian fleet, including nearly 25% of the Australian tanker fleet. Total investment has been more than $300 million. However, no new ships have been ordered since June 1985, when the investment allowance was phased out as part of general Government policy.

In a submission to the Minister for Transport, annexed to the Report of the Maritime Industry Development Committee (MIDC), the Transport Industry Advisory Council expressed its concern over the interruption to the investment momentum during a period of tight international shipping markets, with its consequential effect on
employment and economic gains. The MIDC, made up of representatives from Government, shipowners and unions, was established by the Minister for Transport to consider the findings of the Australian Maritime Industry Mission to Study Developments in Manpower and Training of Seagoing Personnel (the Mission). In its Report, Moving Ahead, the MIDC proposed a new crewing strategy for the next generation of Australian ships, adopting the conclusion of the Mission that

If Australia wishes to maintain an efficient shipping industry and to further expand into the international trades it will need to adopt the policies of other developed nations which have successfully used the benefits of high technology, together with the employment of better educated and trained crews.

In endorsing the MIDC's strategy, the Minister for Transport announced on 22 December 1986 that the Government would provide shipowners with investment incentives for the introduction of modern, technologically advanced ships. This Bill will implement that decision, tying grant eligibility to the implementation by shipowners of maximum crew levels and Australian residency requirements. According to the Explanatory Memorandum to the Bill, the projected level of expenditure on new and secondhand ships is $500 million, which will attract the payment of grants valued at $35 million. As grants will be taxable, it is estimated that the final budgetary cost under the Bill will be approximately $18 million.

Main Provisions

For the purposes of grant eligibility, a shipowner who enters an agreement to acquire a ship on hire purchase terms will be deemed to have purchased the ship at the time of entering the agreement (clause 4).

An ineligible ship will not become eligible for a grant unless the Secretary is satisfied that extensive modifications have been made to its hull or propulsion machinery and to its operational characteristics (clause 5).

Tankers on domestic voyages, tankers on overseas voyages and other ships on voyages will make up the prime categories of ships for the purposes of this Bill. Additional categories may be declared in regulations made by the Governor-General on the advice of the Executive Council (clause 6).

The maximum crew numbers for a ship's voyage will be set out in clause 7:
21 for tankers on overseas voyages and other ships on voyages;
23 for tankers on domestic voyages; and
as prescribed by the regulations for other categories.

Grants will be payable to the shipowners of trading ships. A grant will be payable for a ship which has been purchased in the following circumstances:
the ship has never been commissioned; or
the ship has been commissioned but its construction was completed within the five years preceding the purchase and it was never registered in Australia.

A grant will be payable for a ship which has been converted to eligibility through the extensive modification described in clause 5, subject to certain conditions being satisfied. A grant will not be payable unless the shipowner intends to remain the owner for at least the five years from the payment of the grant and intends to ensure compliance with specified requirements (clause 8).
A grant will not be payable in the following circumstances:

- for a new or converted ship that was ordered, or ordered to be converted before 22 December 1986, or delivered to the shipowner or registered in Australia outside the period from 1 July 1987 to 30 June 1992;

- for a secondhand ship that was ordered before 22 December 1986, or delivered or registered outside the period from 1 July 1987 to 30 June 1990; or

- if a person other than the shipowner arranged for the construction or purchase of a ship before 22 December 1986, or received delivery of it before 1 July 1987, or arranged for the conversion of a ship before 22 December 1986, unless the Secretary is satisfied that this was not done to obtain a grant which would not otherwise be payable.

A ship will only be eligible for one grant under this Bill (clause 9).

The amount of grant payable will be 7% of the ship's purchase price or 7% of the cost of its conversion (clause 11).

A person who is proposing to claim a grant for a ship may apply to the Secretary for a category certificate as soon as the ship's particulars are known (clause 12). An applicant may apply for a review of a Secretary's decision to refuse a category certificate (clause 13). A shipowner may apply to have a category certificate varied to allow a ship to make a voyage not already specified in the category certificate (clause 14).

Clause 15 will provide for claims for grants to be lodged with the Secretary. If a claimant discovers, subsequent to lodging a claim, that s/he has claimed for an inadequate amount, a claim may be lodged for the difference (clause 16). Claims that are subsequently discovered by the claimant to be in excess of the entitlement by more than $100 are to be acknowledged by the claimant within 28 days of the discovery. Failure to do so will attract penalty fines (clause 17).

On considering a claim, if the Secretary forms the opinion that, having regard to sound accounting principles, the price or the cost of conversion of a ship is incorrect, higher than it should be for various reasons, or unreasonable, the Secretary may determine the appropriate price (clause 18). The Secretary may have the ship independently valued for this purpose (clause 19), the cost of the valuation to be deducted from the grant (clause 20).

In April of each of the five years following receipt of a grant, a shipowner will be required to certify that on each of the ship's voyages during the year the number of crew did not exceed the maximum specified in the category certificate and all the crew were Australian residents. The certificate is to be lodged with the Secretary (clause 21).

The Secretary may approve the operation of a ship with a higher number of crew than the maximum specified, in special circumstances for example, when the ship is new or recently modified. Approval may also be given for the ship to carry non-Australian crew members where particular skills are required and an Australian resident is not available (clause 22). Trainees will be excluded from the Bill's crew requirements (clause 23).
Nothing in the Bill is to be taken to prevent a ship operating with less than the maximum crew (clause 24).

A shipowner who has received a grant and who disposes of the ship otherwise than in an approved transfer between shipowners, or registers it outside Australia within the five year grant period, will be required to repay the amount of the grant proportional to the unexpired grant period. A shipowner will be required to repay the full amount of the grant if the ship fails to comply with the Bill's crew requirements or makes a voyage which is not specified in its category certificate (clause 26).

Each financial year, the Secretary is to give details of recipients and amounts of grants to the Minister who must have a copy tabled in Parliament (clause 34).

Clause 38 will provide for applications to be made to the Administrative Appeals Tribunal for review of specified decisions.

Clause 41 will provide for the appropriation of grants from the Consolidated Revenue Fund.

The Governor-General may make regulations consistent with this Bill (clause 42).

References

For further information, if required, contact the Economics and Commerce Group.

6 May 1987
Bills Digest Service
Legislative Research Service

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

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