

3 July 2002

The Director  
Productivity Commission  
Locked Bag 2  
Collins Street East  
Melbourne Vic 8003

**Attention Ms Lisa Gropp**

Dear Madam

**Re: Position Paper – Economic Regulation of Harbour Towage and Related Services**

The following comments are offered in response to the Commission's Position Paper on the Economic Regulation of Harbour Towage and Related Services.

To improve the readability of these comments, the author has highlighted the page and paragraph at the commencement of the text. In addition, a summary paragraph is included at the end.

Comment has not been restricted to philosophical alternatives. Some suggestions advocate alternatives in language or correct perceived minor factual errors.

**Page xxvi Overview Fourth Paragraph**

The statement is made that "the costs of training also are not very high". Training of tug engineers and general-purpose hands is reasonably generic, however the training of a tug master is a protracted and expensive undertaking. Like an aviation pilot, a tug master has to satisfy his/her employer that he/she can master the "drive" unit characteristics of each class of tug. Each drive unit has significantly different features; making training a significant cost component in an operator's budget.

To put this training into context, a responsible towage operator working within an established QA regime would require a new master operating an omni directional tug ("z"-peller) to observe for 30 tug jobs and then require the trainee to undertake at least 60 jobs under supervision.

Such a regime is applicable for each omni directional drive unit – irrespective of the master's experience handling other types of omni directional units.

**Page xxxvii Overview Sixth Paragraph**

The theme that somehow an exclusive licence has an inbuilt capacity to deliver higher rather than lower prices is stated throughout the document. DCAPL suggests that such an argument is baseless if the operator is experienced. In both the Gladstone and Fremantle tenders experienced operators provided the port authority with detailed information citing the methodology, which would be used when passing on savings. The quanta of these benefits are a competitive issue and form part of each authority's assessment process.

**Page 11 Harbour Towage and its Market First Paragraph**

Should be amended to read "P&O's Western Australian towage interests and BHP's Newcastle venture where sold to Adsteam/Howard Smith Joint Venture Companies".

**Page 15 Harbour Towage and its Market Last Paragraph**

Should be amended to read “and also enable the tug to exert almost as much bollard pull astern as ahead”.

**Page 16 Harbour Towage and its Market Second Paragraph**

Should be amended to read “Modern tugs with a towage winch are usually operated by a crew of two or three”.

**Page 27 Harbour Towage and its Market Last Paragraph**

Should be amended to read “ and is predominantly based on the gross tonnage (GT) of the client vessel”.

**Page 42 The Regulatory Environment for Harbour Towage Bottom Footnote**

To be consistent with the Table 2.4 on Page 22 the Footnote should be amended to read, “Dampier had the highest number of tug jobs and the second highest number of ship visits”.

**Page 44 The Regulatory Environment for Harbour Towage Second Dot Point Third Paragraph**

Should be amended to read, “of the two towage providers in Sydney’s ports in 1996, Waratah and Fenwick – but failed to prevent the merger”.

**Page 47 The Regulatory Environment for Harbour Towage First Paragraph**

Should be amended to read, “They are usually mariners with command experience and with comprehensive port-specific knowledge and skills”.

**Page 49 The Regulatory Environment for Harbour Towage First Paragraph**

In DCAPL’s opinion there are two issues, which the National Maritime Safety Committee must address in terms of a national standard for crewing and operator competencies. These are:

1. The qualifications required for a tug engineer engaged on board a harbour tug. DCAPL suggests that the minimum qualification should be a MED Class III Certificate of Competency; and
2. Manning levels for various classes of tugs. These levels vary with jurisdiction (States).

**Page 85 Market Power in Harbour Towage Last Two Paragraphs**

Second to last paragraph be amended to read, “the towage requirements of a ship are determined by the harbour pilot”.

Comment last paragraph. In DCAPL’s opinion (the author having undertaken over 1,000 pilotages) the only pressure exerted on the pilot by a ship’s master was to increase the number of tugs used for a manoeuvre. DCAPL is not aware of an occasion where a ship’s master requested a pilot colleague to reduce the number of tugs ordered for a manoeuvre.

**Page 99 Market Power in Harbour Towage Third Paragraph**

Comment. In addition to price reductions by as much as 16.5 per cent, one tender for towage services at Gladstone offered identical service outcomes as the incumbent and significantly enhanced conditions.

**Page 142 Alternative Arrangements Third Paragraph**

Third sentence amended to read “Marsden Point” – not Port Northland.

**Page 149 Alternative Arrangements Last Paragraph**

Comment. The major problem is manning. The manning regime in each jurisdiction (State) is different and this difference inhibits the flexibility of a tug operator when seeking the most efficient outcomes for the placement of their tug fleet.

Reducing the minimum qualification for a tug engineer is an issue, which must be addressed.

### **Page 151 Preliminary Assessment and Recommendations Second Last Paragraph**

Comment. One of the advantages an overseas operator has, when addressing costs and margins, is their capacity to be innovative. Adsteam's response to the three (Bunbury, Gladstone and Fremantle) towage licence tenders indicate the company is not yet on top of its cost margins.

### **Page 182 International Regulatory Arrangements Third Dot Point from the Top**

Amend to read "Marsden Point" not Port Northland.

### **Summary**

DCAPL suggests that the Position Paper has not given sufficient weight to the innovative approach towage operators adopt when drafting their exclusive licence responses. This innovation significantly enhanced the competitiveness of the offers, which have/would have benefited ship operators.

The author has been involved in three exclusive licence ("for the port") tenders – Marsden Point, Gladstone and Fremantle. In each case the process enabled towage operators to adopt an innovative approach to contain capital expenditure outlays and reduce operating costs. The tendering for exclusive licences have led to reduced towage costs for users at all three ports and there is still scope to significantly lower prices at Gladstone and Fremantle.

In all three ports the exclusive licence process drove these reforms.

How has "for the port" tendering delivered improved economic efficiency in the towage industry? Summarised they:

- Encouraged a different approach to tug design, which is more cost efficient;
- Addressed efficiency issues in relation to administration;
- Identified alternatives to manning and roster arrangements, which would pass the "no disadvantage test" and increase the level of efficiency. Given that crew salaries plus on-costs represent some 68% of a tug's operating expenses; achieving better outcomes in terms of the efficient use of labour is a legitimate business priority.

DCAPL argues that cost efficiency in the harbour towage sector will only be achieved by the issuance of exclusive licences. The evidence that has been quantified to date shows that exclusive licensing will deliver price reductions, which far outweigh the cost of writing, monitoring and enforcing exclusive ("for the port") licence regimes.

Adsteam has stated their cases suggesting exclusive licensing is a threat to National Salvage Capability, and then argues that the provision of maritime emergency response and salvage services should be left to Adsteam - exclusively.

The Productivity Commission may wish to review the offers made by the unsuccessful tenderers at Gladstone and Fremantle. The more competent submissions offered strategies for attending to both maritime emergencies and salvage. One of these submissions articulated a methodology, which is not dissimilar to Adsteam's current approach. The Productivity Commission can be assured that there are personnel (outside Adsteam) with maritime salvage expertise capable of managing any salvage/emergency response.

Adsteam's National Salvage Capability Paper raises a number of issues. These are: how the calculations were made to identify additional capital costs (tens of millions of dollars), personnel training, award sharing and emergency response philosophy. These issues should be tested at the forth-coming Sydney and/or Melbourne hearings.

One final comment on salvage – The rationale behind Howard Smith establishing a salvage business (forerunner to United Salvage) was based on two propositions:

- Support for its wholly owned or managed coastal shipping fleet; and

- Recognition that marine salvage and emergency response were legitimate commercial growth opportunities.

DCAPL suggests that sunk costs associated with contestable entry into an Australian port have a significant influence on commercial decisions. On the basis of a new entrant's business failing after three years, calculations show sunk costs exceed \$A2.50m when:

- A new entrant charters two tugs from Far Eastern owners;
- Positions them at an Australian East Coast capital city port; and
- Redelivers both tugs to the Far East.

The magnitude of this cost has the capacity to turn a marginal opportunity into an unattractive commercial risk.

Yours faithfully  
For Dale Cole & Associates Pty Ltd

A handwritten signature in black ink, appearing to read 'Dale Cole', written in a cursive style.

Dale Cole  
Director