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2nd July, 2002.

Presiding Commissioner A.M. Hinton,
Harbour Towage Enquiry,
Productivity Commission,
LB2, Collins Street East,
MELBOURNE. VIC. 8003.

Dear Sir,

This submission to your enquiry is made by Gladstone Port Services Pty. Ltd., lines launch operators in the Port of Gladstone in Queensland and by Brisbane Port Launches, lines launch operators in the Port of Brisbane in Queensland.

1. Historical background

There have been two lines launch operators in the Port of Gladstone for a period in excess of ten years. Prior to the late 1980's there was only one operator, a subsidiary of P & O. and at about that time, a second operator, Australian Livestock Shipping and Transport Pty. Ltd. (A.L.S.T.), owned privately, entered the market in competition with the incumbent P & O. After a period of a little over five years competition, P & O sold its subsidiary to Gladstone Port Services Pty. Ltd. (G.P.S.) which is also a private company run by two partners, Gordon Gill and Neil Moran and these two private operators (A.L.S.T. and G.P.S.) continued in competition until approximately December, 1999 when A.L.S.T. was purchased by Lines Running Services Pty. Ltd., a wholly owned Adsteam subsidiary. G.P.S. and this Adsteam subsidiary have continued in competition in Gladstone up to the present time. In view of the acquisition of A.L.S.T. by Adsteam in December, 1999, Neil Moran (one of the partners in G.P.S.) entered into partnership with one Dick Kennedy to commence a second lines launch business, Brisbane Port Launches (B.P.L.) in the port of Brisbane to compete with the wholly owned Adsteam subsidiary, Wright Launches, which had had the benefit of a monopoly in Brisbane for many years. That operation commenced in February, 2001 and B.P.L. has continued in competition with

Wright Launches in Brisbane up to the present time with Neil Moran having an interest in both G.P.S. and B.P.L.

2. Terms of reference

The terms of reference for this enquiry, in their opening paragraph, refer "Harbour Towage and Related Services to the Commission for inquiry and report...". In paragraphs 5.(a) and (b) and 6 of the "Scope of inquiry" in the Terms of reference, the Commission is again directed to "related services" in its review. Whilst the issue of towage services properly occupies the Commission's greatest attention, the consideration of "related services" in the Commission's Position Paper, appears to have extended so far to only mooring services, salvage and fire fighting in any detail with lines launches having only justified fleeting mentions. Lines launch services require specific consideration, firstly, in their own right as a related service as mentioned in the terms of reference and secondly, in relation to the extent to which towage prices might impact upon the costing of lines launches and therefore upon the total overall charges faced by shippers.

3. Definition of lines launch services

The task of lines launches is accurately defined in the "Related services" paragraph of Ch. 2 on pages 7 and 8 of the Commission's Position Paper. "For larger vessels or where lines cannot be dropped directly onto the wharf, mooring launches are used to take lines from the ship to the mooring gang."

4. Nature of the problem

(a) At paragraph 6.5 on page 100 of the Position Paper, the Commission states that ".....there seem to be only small cost advantages – administrative savings of a shipping company or agent dealing with a single firm – in towage firms providing....." mooring lines services. Whilst this observation may be accurate from the perspective of the shipping company, there can be significant other advantages from the perspective of the towage firm, particularly where the towage firm has a significant share of the towage market as Adsteam does.

(b) In the case of Adsteam, as noted in the "Rebates and discounts" paragraph on page 29 of the Position Paper, " rebates have been introduced since 1996....." Whilst these rebates may have been motivated

61 0749 724124

by complaints from major users that they subsidised casual users' towage requirements, they have, in recent times, had (and are continuing to have) a very significant impact on the market share of both G.P.S. and B.P.L. in their commercial competition with the two Adsteam launch services in Gladstone and Brisbane. Since the purchase of A.L.S.T. by Adsteam in November, 2000, G.P.S.'s market share in Gladstone has fallen from in excess of 60% to a current figure of probably less than 40% and still falling as Adsteam competes aggressively for work let by tender and rebated shipping companies, one by one, move their lines launch allegiance to follow their towage rebate. In Brisbane, B.P.L. has secured approximately 25% of the lines launch market since starting operations approximately 18 months ago, but all of this business is from non-rebated shippers. In B.P.L.'s short life so far, it has already lost, from 1st July, 2002, one of its initial clients, FESCO Shipping, through that company entering into an arrangement with Adsteam to provide a tug/lines launch package nationally.

(c) In the case of Brisbane, there are a reasonable number of smaller shipping operations which do not receive rebates from Adsteam and, having secured this unrebated

sector of the market, B.P.L. appears to have progressed as far as it can realistically expect to, unless and until current Adsteam rebated shippers move their towage work to an alternative towage operator. Once an alternative towage operator commences business in Brisbane at a price which is competitive with the rebated Adsteam rate, then the rebate incentive to enter into tug/lines launch package deals with Adsteam disappears and the two lines launch operators are then able to compete on a level playing field.

(d) However, it is not sufficient for an alternative towage operator to be price competitive in just one port alone, since the bigger shipping companies that are receiving rebates are doing so on a national basis and a saving in Brisbane alone will not provide sufficient incentive for shippers to move their work to the new competitor in just one port. It is this market reality that requires Australian Maritime Services Pty. Ltd. for instance to commit themselves to opening in a range of Australian ports, in addition to Melbourne, and this same market reality may have been a factor in the inability of Hunter Towage Services to secure an adequate market share to reach profitable levels in Newcastle even with the support of its five ship owning partners.

61 0749 724124

These same considerations as mentioned in (c) are affecting the market share of G.P.S. in Gladstone. Although Gladstone is a mixed cargo port, it relies heavily upon the large volume of bulk cargo (particularly coal) that is exported through the port. For this reason, Gladstone is largely a "large ship" port and does not have the same number of small, unrebated shippers as does Brisbane for instance. The impact of rebated shippers allocating their lines launch engagements to follow their towage rebate is therefore being felt particularly heavily by G.P.S. in Gladstone. In addition, Adsteam has been particularly aggressive in open tendering situations having recently won a tender for all of Beaufort Shipping Agency's work in Gladstone. G.P.S. has been advised by the local manager of Beaufort that it missed the tender "by a mile" despite having reduced its rate from the already discounted rate which it had previously been charging to Beaufort. Further, a significant proportion of Gladstone's ship numbers (approximately 130 ships per annum) is provided by the import of bauxite from Weipa to Queensland Alumina Ltd.'s plant at Gladstone. By reason of this volume, the contract for lines launch services is let by Q.A.L. direct on a tender basis for one to two years at a time. This contract was won by G.P.S. for all but one year since it purchased its business from P. & O. whilst competing with the previous private operator of A.L.S.T. but upon the most recent tendering for this contract, subsequent to Adsteam's entry into the lines launch market, it has been let to the Adsteam subsidiary at a price higher than that tendered by G.P.S. Notwithstanding the fact that G.P.S. has an unblemished operational record for over seven years, Q.A.L. presumably had either a commercial or operational incentive to accept a tender other than the lowest. On the other hand, Adsteam also has a commercial incentive to expand its market share since it acquired A.L.S.T. in December, 1999 at a total cost of \$527,000 (See Note 30(c) to the Financial Statements in the 2000 Adsteam Annual Report) of which sum, only \$283,000 represented the fair value of tangible assets. The balance of \$244,000 represented acquisition costs and goodwill but the majority of that goodwill was work which A.L.S.T. then had allocated to it by Adsteam and which Adsteam itself was free to direct wherever it chose. Adsteam therefore had a keen desire to venture into the related business of lines launch operators to the point of being willing to pay for goodwill which it itself was creating. Adsteam presumably could see long term benefits in operating lines launches even though it purchased a business with a minority market share (which market share included Adsteam Agency's own work), at a significant capital cost but in a port where it was then giving rebates on towage rates which had already been reduced in a competitive tender for the

61 0749 724124

towage license. Their towage rates were being financially squeezed in every direction but they were still willing to pay a generous capital amount for an under performing lines launch business with the only apparent benefit being the extension of their vertical integration in the port.

(f) Whilst, at present prices, B.P.L. is able to continue to trade at a very modest profit in Brisbane at 25% of the lines launch market, prospects are not so bright for the longer term outlook for G.P.S. in Gladstone. Because ship numbers are only about half those of Brisbane, because of the "big shipper" nature of the ship visits to Gladstone and because lines launch charges in Gladstone are already very low with low operating profit margins, G.P.S.'s ship numbers, market share and profitability are likely to continue to fall perhaps to the point in the near future of becoming unsustainable. If G.P.S. is forced to withdraw from the Gladstone market, then Adsteam will have the benefit of a monopoly in the provision of lines launches in the port. In this situation, whilst the towage charges recoverable by Adsteam are limited by the exclusive license granted by the Gladstone Port Authority, the lines launch charges are not so limited and should Adsteam so choose, an opportunity would then exist for it to either partially or wholly recover the towage rebate that has been granted by it to its larger shippers. Similar considerations apply to other related services such as mooring services and (perhaps to a lesser extent) agency work and not only to Adsteam but also to any other operator in a similarly strong market position with a vertically integrated range of related shipping services. The Commission recognises the consequences of these factors in the pricing of mooring services in Sydney for instance, when it sets out in the paragraph headed "Mooring services" at the start of paragraph 4.8 on page 55 of its Position Paper that "per container, mooring in Sydney is more than three times as expensive than in Melbourne..... One difference between the ports in the provision of mooring services is that Sydney moorage is provided by a single operator,....." and that NSW mooring services are subject to prescriptive labour conditions." Should Adsteam succeed in achieving a monopoly of lines launch services in the Port of Gladstone, it then has the prerogative, should it so wish, to introduce a heavily inflated scale of charges without any regulatory or commercial consequences.

(g) The commission has already alluded to these considerations in the paragraph headed "Establishing a customer base" in paragraph 6.2 at page 81 of its Position paper but G.P.S. and B.P.L. are feeling the implications of these considerations in practical terms. The Commission observes in the last

part of the paragraph headed "Alternative towage providers" at the bottom of page 83 of the Position paper that "Because of the limited complexity of providing harbour towage, new providers can also come from outside the existing industry or may develop fairly rapidly from a small base." Whilst this assertion may appear theoretically sound, it is a practical impossibility for a new operator to successfully establish a customer base in one port only and then grow from that successful base to compete in a gradually growing range of ports, in the face of the existing Adsteam rebate arrangement. AMS appears to have an appreciation of this problem in view of the tactics that it is adopting in opening across a range of ports. It remains to be seen as to whether this approach by AMS will result in it securing a reasonable market share across Australia to enable it to truly compete with the Adsteam rebate arrangement.


Concluding submissions

(a) For there to be real competition in the towage market in Australia, any challenger to the incumbent Adsteam has to be able to offer to large shipping companies who visit a wide range of Australian ports, a commercially attractive alternative to the present Adsteam rebate arrangement. With only six ports in Australia presently employing exclusive license arrangements, it appears that the only practical means of achieving this in the present environment is for that competition to come from a sufficiently large international operator who has the capacity to commence operations in a sufficiently wide number of ports to be commercially attractive to the bigger shipping companies. If however, such an international towage provider were motivated to attempt such a venture, then, depending upon the size of that operator and the number of ships serviced by it at other international ports, a similar rebate practice may be able to be adopted on an even larger, international scale thereby commercially effectively excluding any real competition from virtually all Australian ports. Consequently, in order to ensure that all Australian ports are open to competition from both large international operators and smaller local operators (as envisaged by the Commission at the bottom of page 83 of its Position paper ".....new providers can also come from outside the existing industry or may develop fairly rapidly from a small base.") then the Commission's Preliminary recommendation 9.2 urging relevant jurisdictions to grant explicit discretion to port authorities to license towage operators (on an exclusive or non-exclusive basis), should be adopted. G.P.S. and B.P.L. strongly endorse this recommendation.

61 0749 724124

(b) The overriding purpose of this referral to the Commission is, as stated in paragraph 1.1 on page 1 of the Position paper, to examine the harbour towage industry with a view to increasing "Australia's international trade, bringing benefits to resident consumers and producers of Australia's imports and exports." It is consequently appropriate to consider the whole cost of a ship visit to an Australian port, including "related services" such as lines launch services. In view of the possible (or perhaps likely) link between market dominance of the towage industry and lines launch and other related service prices, then the Commission's Recommendation 9.2 should be broadened to recommend also that the granting of licenses by port authorities should cover not only towage operations but lines launch, mooring service and other related services that might otherwise be the subject of excessive pricing in the absence of regulatory and/or commercial restraint.

Yours sincerely,
NEIL MORAN, Principal,

A handwritten signature in black ink, appearing to read 'Neil Moran', enclosed within a large, loopy oval shape.

Gladstone Port Services Pty. Ltd.
and Brisbane Port Launches.