



23 April 2002

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[ms04203.doc]

Lisa Gropp
Assistant Commissioner
Productivity Commission
Harbour Towage Inquiry
LB2, Collins Street East
MELBOURNE VIC 8003

Dear Ms Gropp

Economic Regulation of Harbour Towage and Related Services

Thank you for providing the opportunity for Ports Corporation of Queensland to participate in the Productivity Commission Inquiry "Economic Regulation of Harbour Towage and Related Services".

An effective towage service is vital to an efficiently operating port. Towage services must be:

- safe
- cost effective
- appropriate
- available (to all users of the port and to meet all shipping needs)

The Corporation is unique in Queensland in that it has ports in multiple locations, whereas all other Queensland port authorities are responsible for one port in a single location. The Corporation does not directly provide towage services in any of its ports. Towage services are provided directly from the towage provider to the port user.

PCQ is subject to Queensland legislation. In relation to towage, this includes section 164 of the *Transport Infrastructure Act 1994* (TIA) which, in conjunction with sections 44(1) to 44(4) of the *Transport Infrastructure (Ports) Regulations*

...essentially provide certain port authorities (specified in regulations) with the power to authorise the provision of harbour towage services within their respective port limits and, at the same, exclude other unauthorised towage operators from providing services. The authorisations can be subject to provisions which are not specified in or constrained by the legislation". (from the Terms of Reference for the Review of the Transport Infrastructure Act (Provisions Relating to Harbour Towage), Queensland Transport, 2000).

The Corporation is not currently included in section 44 of the *Transport Infrastructure (Ports) Regulation* as a port authority able to give approval to operate a tug service in its ports.

Therefore, although the Corporation, as a port authority under the TIA, has some powers within port limits, it has no direct ability to ensure the service meets the criteria above. The Corporation's only ability to control towage providers is through the ownership of facilities for berthing tugs, and indirectly via port rules. Regulation of harbour towage and related services is, consequently, a significant issue for the Corporation.

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The significance of the issue for the Corporation can be demonstrated by examining the ports of Lucinda and Mourilyan.

Lucinda and Mourilyan are the least visited of the Corporation's ports. Towage requirements at Lucinda and Mourilyan are supplied by one Mourilyan based tug plus one tug called from Cairns. It is the Corporation's experience that, in this context, and in the absence of regulation, the towage operator has provided a safe and effective service but has not been responsive to any discussions on open book pricing. It is the Corporation's view that it would be possible to structure operations to provide a more cost effective solution to the three ports overall were the exclusive licensing of towage operators available to the Corporation.

The Corporation has sought powers under the TIA to authorise the provision of harbour towage services (exclusive licensing) in Mourilyan and Lucinda. It is understood the Queensland Government is favourably considering that request but this has now been ratified.

The Corporation considers that licensing of a single towage operator in a port or ports is acceptable, as long as certain safeguards are in place. These would include:

- exclusive licensing for a set period (to reflect the required capital commitment) ie serial competition
- agreement on a pricing formula

With respect to pricing, it is the Corporation's view that competitive tendering should ensure a reasonable (but not excessive) profit return for the towage operator.

However, should insufficient competition exist within the market it would be necessary to consider some form of price regulation over the industry.

The Corporation believes open competition would not be effective given the high capital costs of tugs. Serial competition would be the most effective way to bring competitive pressures. This would work most effectively if more than one towage operator had presence in Australia.

There are other key points to consider including:

- (a) PCQ does not enter into contracts for towage services to handle vessels – it is usually the ship hirer. Therefore PCQ cannot control price, quality, safety or availability of towage in its ports through the usual method ie contract for the service.
- (b) PCQ ports, and therefore its infrastructure investments, are at risk if no towage service is provided or the towage service is so expensive that it makes the port uncompetitive.
- (c) Without a clear control mechanism such as exclusive licensing, PCQ is not in a position to advise potential port Users of the price or availability of a towage service in the port. It is up to the discretion of a towage operator in the area.
- (d) If there is no control mechanism such as exclusive licensing, there is no obvious mechanism by which other services such as firefighting and salvage can be locked into the towage arrangement. Tugs suitable for all vessels using the port is also an important issue. These issues can best be evaluated and port costs minimised when the tugs are sized and equipped to meet the specific needs of each port.

Finally it should be noted that the Corporation's concerns and proposals relate to a regional port setting and a different approach may be necessary for capital city ports.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Brad Fish', with a stylized, cursive script.

Brad Fish
Chief Executive Officer