
SEA FREIGHT COUNCIL OF WESTERN AUSTRALIA

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SUBMISSION ON HARBOUR TOWAGE AND RELATED SERVICES

PREAMBLE

The Sea Freight Council of Western Australia (Council) - established in September 1996 - comprises a wide range of maritime industry participants and interested parties, many of whom may also provide written submissions to the Productivity Commission on the important matter of harbour towage and related services.

Council's submission is independent of any of these other submissions which may be placed before the Productivity Commission by our members individually.

For information purposes we have included a full list of the current Council membership and their industry details (Appendix 1).

EXECUTIVE SUMMARY

Council is of the opinion that:

The process of declaration of ports must be maintained for those ports already covered by this strategy.

The process of declaration must be strengthened to ensure that harbour towage and related service providers seek approval from the Australian Competition and Consumer Commission (ACCC) in order to vary prices.

The current system of notification of price variation to the ACCC is insufficient and facilitates opportunity for service providers to circumvent the spirit of the intention of the declaration process.

Periodic competitive tendering of towage and related services provides port authorities with the opportunity to take a far more proactive role in the operational and commercial aspects of harbour towage - and this should be a matter of high priority for those authorities.

Unless (and until) genuine competition is introduced to the process of service provision for harbour towage and related services consumers (direct and indirect) of these services will continue to be disadvantaged.

The 'entry level' costs associated with facilitating genuine competition mitigate against true competition - therefore it is essential that some mechanism be established to prevent the exploitation of natural monopolies evident in many ports around Australia in respect of harbour towage.

BACKGROUND TO THIS INQUIRY

The extent of structural reform in the port sector of the maritime industry and, indeed, within the harbour towage industry itself has resulted in less competition - not more - and this situation in itself is cause for serious concern by both cargo interests and shipping service providers alike.

Therefore this inquiry covering the declaration of ports and harbour towage services provision is of paramount importance to the maritime industry in Australia.

Consequently Council would encourage the use of information coming from the inquiry to proactively pursue more equitable pricing arrangements in all ports not just those that currently have declared status.

SCOPE OF THE INQUIRY

Whilst acknowledging that the scope of this inquiry directly excludes addressing the recent price increases implemented by Adsteam Marine, Council is aware that various maritime industry sectors are sceptical of the validity of those increases - particularly as the ACCC specifically advised that the increases could not be justified.

This inquiry deals solely with the seven (7) port facilities declared under the prices surveillance act - however, it is generally thought desirable for all ports in public ownership to be treated equally.

RELATED REVIEWS

Council would like to draw to the attention of the Productivity Commission the Bunbury Port Authority's (BPA) towage licensing arrangements and, in particular, the Federal Court decision which upheld the BPA's right to contract exclusively with their towage operator - Riverwijs Marine.

Those proceedings may not meet the intended requirements of a review, per se. However, they do clearly demonstrate an independent judgement - at law - of alternative arrangements, which have been deemed to encourage competition, albeit utilising a non-conventional method.

The use of licensing arrangements - whether exclusive or non-exclusive - awarded through a process of periodic competitive tendering will provide the transparency required in respect of harbour towage.

Further, the use of licensing arrangements need not, and should not, preclude the involvement of unions in the organisation of labour in the towage industry.

SERVICES PROVIDED BY TOWAGE OPERATORS

Services provided by towage operators, other than those of ship handling, do vary from port to port. Such variations are subject to the specific requirements of the particular licensing arrangements for each port and may include:

- # Firefighting Capability
- # Pilot Boat Services
- # Line Handling
- # Mooring Gangs
- # Oceangoing Salvage Capability

Council is mindful of the need for individual ports to maintain flexibility to the degree required to ensure that both operational and commercial efficiencies are maximised whilst allowing the service provider to gain a reasonable return on investment.

The two (2) main factors in judging when this process is working equally to the advantage of all concerned are:

- # The level of cross-subsidisation, if it exists, of one or more of these ancillary services by the pricing structure of the core ship handling charges.
- # The decision-making process which may lead to the 'bundling' of one or more of these ancillary services together with the core ship handling services.

INDUSTRY STRUCTURE; COSTS; DEMAND & PRICING

There is little, if any, evidence of cost reductions in the towage industry in Australia despite significant restructuring, such as:

- # Far fewer service providers operating now than at the beginning of the 1990's.
- # Reduction in crewing of tugs
- # Enterprise Bargaining
- # Agency-driven vertical integration in some ports.

Council is aware of the argument that the latest price increases have been imposed against the background of static pricing structures ranging between two (2) and fourteen (14) years depending on the port involved.

It is also acknowledged that, typically, the size of vessels requiring towage services at Australian ports has increased and this has resulted in a reduction in the number of ships being serviced, at least in the liner trades (container) services.

Technology advancements such as more efficient bow-thrusters on ships, trade service rationalisation with increased use of slot-chartering arrangements and the reduction of liner services, particularly in Western Australia have, no doubt effected the cost structures of towage service providers.

However, given that the total fleet of tugboats operating in Australia has remained virtually unchanged over the last ten (10) years, the fact that there has been a 25 % reduction in crewing during that period could reasonably lead to expectation that cost reductions would be evident. Unfortunately, users of towage services claim this is not the case.

COMPETITION; MARKET POWER & INVESTMENT

One of the most significant impediments to increased competition in the towage industry appears to be the high 'entry cost' which new service providers encounter.

The cost of capital equipment and infrastructure to provide and maintain services underpins this high 'entry cost'. However, the capital cost of new tugboat purchases is predetermined by the tasks which they are expected to perform. For example, it is understood that the capital cost of purchasing an Ocean-going tug - capable of salvage operations - is considerably more than a tug designed and built specifically for harbour-only towage.

Design and purchasing decisions should be based, primarily, on customer requirements - however, there must also be an element of flexibility exercised by the service provider/s. This issue is integral to the matter of capital cost recovery and return on investment in the industry.

Additionally, if for whatever reason, towage service providers deploy tugboats larger, or more powerful, than customers require then the increased costs involved in that deployment should not be borne by those customers.

These specific matters are complex issues deserving of genuine investigation and understanding by all concerned with the use and provision of towage services.

Market power borne out of prohibitive 'entry level' costs driven by design and purchasing constraints, combined with fixed labour costs and contractual arrangements which disadvantage potential service providers, genuinely deserve closer scrutiny.

Also worthy of investigation and answer is the question:

" At the time of the dissolution of the Adsteam Marine and Howard Smith partnership, why was Adsteam Marine permitted to purchase the business contracts which were then wholly owned by Howard Smith"?

Given the quantum of the recent price increases it is reasonable for those sectors of the maritime industry directly (and indirectly) effected by their imposition to call for regulated price surveillance and control.

Such action is not sought lightly, however, in the absence of genuine consensus and agreement of the true nature of the cost structure and profitability of the towage industry, this is the only commercially sensible strategy to pursue. The capacity to maintain Australia's competitiveness in international trade is highly dependent on the shipping industry delivering reliable services at competitive rates. Because towage services represent a significant component of total port call costs they, potentially, can impinge on the capability to maintain that international competitiveness.

M L HARRIS

Chairman

Sea Freight Council of Western Australia

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