

**FREMANTLE
PORT**

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Productivity Commission
Harbour Towage Inquiry
LB2 Collins St East
Melbourne Vic 8003

(email – harbourtowage@pc.gov.au)

Dear Sirs

ECONOMIC REGULATION OF HARBOUR TOWAGE AND RELATED SERVICES

I refer to the inquiry by the Productivity Commission into economic regulation of harbour towage and related services.

Fremantle Ports supports the continuing role of the Australian Competition and Consumer Commission (ACCC) in prices oversight in the Australian harbour towage industry and submits that this role should be increased to one of a prices regulator until such time that it is satisfied that other forms of price controls, such as competitive tendering for exclusive towage licences, are more effective.

In addition, Fremantle Ports is of the view that Fremantle Ports' Outer Harbour at Kwinana should be included in the prices oversight regime. At present, prices oversight applies only to the Inner Harbour at Fremantle and not to the Outer Harbour. Fremantle Ports has expressed this view in submissions to the ACCC on previous occasions.

Fremantle Ports has also written to the ACCC recently explaining our success with the introduction of licensing of towage service providers through a competitive tendering process. This was a two stage process where submissions were invited from parties interested in exclusive and/or non-exclusive licences for the provision of towage services in the Inner Harbour and/or the Outer Harbour. The aim in calling for towage proposals was to ensure that charges for towage services are as competitive as possible and that the quality of the service provided is best practice in terms of availability, reliability, safety and flexibility.

A total of ten submissions were received from Australia and overseas. In the first stage of the evaluation process, submissions were assessed for their ability to meet technical and operational requirements. In the second stage, the short listed applicants were assessed against commercial and customer criteria.

The process resulted in a decision to issue non-exclusive licences. The first of these licences were issued to the incumbent suppliers, Stirling Harbour Services and Stirling Marine, both subsidiaries of Adsteam Marine Limited. A third licence was also issued to an independent company, Total Marine, but this company only provides one or two services a week to small vessels and does not offer any real competition to the Adsteam subsidiaries.

There were a number of important lessons that were highlighted by the Request for Proposals process. The first was that the interest from non-incumbent suppliers was primarily for exclusive licences – this no doubt is a reflection of the high sunk capital costs of market entry and highlights the fact that high capital costs are a barrier to market entry where there is a threat of competition with the possibility for price wars.

The second lesson was that economies of scale are very real in this industry and this can have a significant effect on prices. The submissions from proponents highlighted the fact that higher charges would be required were they to be issued an exclusive licence for the Inner Harbour only or the Outer Harbour only, compared to an exclusive licence for both the Inner Harbour and the Outer Harbour.

Exclusive licences would therefore have resulted in the greatest cost reductions in the short term, but other criteria meant that overall non exclusive licences were to be preferred for the time being at Fremantle. The issue of non-exclusive licences nonetheless resulted in an average reduction of around 15 per cent in towage charges from previous levels in both the Inner Harbour at Fremantle and the Outer Harbour at Kwinana/Cockburn Sound. In addition, the scale of charges in the Outer Harbour was also simplified with penalty rates and surcharges for out of ordinary hours work being completely removed.

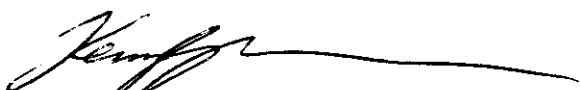
A further condition of the current licence Agreements with the towage suppliers is that prices are to remain fixed for a period of two and a half years from June 2001 to December 2003. Hence, the recent move by Adsteam Marine to increase towage charges in other capital city ports did not include Fremantle.

Before licensing was introduced, Fremantle Ports had been greatly concerned that towage services were not meeting customer expectations in terms of reliability and prices. This reflected customers' concerns that the lack of competition in the local industry had resulted in high costs and low levels of reliability. However, the issue of licences through a competitive tendering process has gone a long way towards redressing these concerns. Prices have now been reduced and, in addition, the Licence Agreements contain clauses regarding guarantees for continuity of services. Fremantle Ports continues to monitor levels of customer satisfaction through surveys and customer liaison. Recent surveys have shown that there has been a marked improvements in customer satisfaction.

Overall, Fremantle Ports believes that the introduction of serial competition through competitive tendering for exclusive licences has potential to offer long term solutions to making the towage services market as competitive as possible. However, while there is only one major operator providing services in the majority of ports nationally, and with that operator also offering volume discounts and partly owning one capital city port, it may be necessary for this to be undertaken in a number of ports in a co-ordinated manner. Moreover, in the absence of the ability to achieve this, it is clear that there is a need for continuing involvement of the ACCC in prices oversight and indeed price control regulation. In this regard recent experience has shown that prices surveillance alone is ineffective and there is therefore a need to exercise greater power through prices regulation.

On a related issue Fremantle Ports has drawn attention on a number of occasions to the anomalous situation where towage services in the Port of Fremantle are subject to prices surveillance in the Inner Harbour, but not in the Outer Harbour. It has been submitted that not only is the Outer Harbour as significant as the Inner Harbour in terms of market size, but the Outer Harbour is also significant by comparison to other Ports in Australia where prices surveillance has been carried out in the past. It is therefore submitted that the Outer Harbour should be include in any future prices oversight (or regulation).

Yours faithfully



Kerry Sanderson

CHIEF EXECUTIVE OFFICER