

Victoria

11 April 2002

The Chief Commissioner
Productivity Commission

Dear Sir/Madam,

Harbour Towing Enquiry
by Productivity Commission

The service should no longer be a 'declared service' which has to report intended price increases to the ACCC which, although they could not enforce decisions taken, could agree to the prices or object to them. This is pointless, as we have seen because Adstream Marine increased tug charges at some major ports despite objections from the ACCC.

Moreover, as the ACCC has proved by its decisions on pricing in other industries, the ACCC does not make allowances for the fact the suppliers of capital will not invest unless they receive a reasonable return on capital. Thus, the ACCC as it is at present staffed, should not have power to regulate any prices or charges in any industry.

The ACCC's statements about pricing in the harbour towing industry are typical examples of their lack of understanding that in the capitalist system there must be reasonable profits. For example; they argued that Adstream's revenue should not exceed its weighted average cost of capital. These pronouncements are absurd. How is a marine tug business - or any business for that matter -- going to survive for long under such bizarre constraints.

All businesses must have a profit margin built into their fees and charges. In this case Adstream had not increased prices in certain ports since as long ago as 1987. Adstream pointed out that costs to them had risen - averaging 54% or plus since the last price increases, thus eroding average margins to 0.7% which is clearly unsustainable. Adstream also pointed out that the increases it sought would deliver a margin on costs of 18%. Adstream needed substantial increases in the ports of Brisbane, Port Botany, Port Jackson, Melbourne and Adelaide on the basis that costs were increasing because the number of jobs was falling. The increases were also needed to pay for bigger tugboats.

In the future the cargo ships will get bigger and so the tugboats will have to get bigger and more expensive. Thus, even if the ACCC were to rule there had to be competition in the domestic industry, it is extremely unlikely that any other business would attempt to share the decreasing number of tug jobs with Adstream. The cost of entry would be too high.

If, as long term shareholders in Adstream, we are to receive a reasonable regular dividend from this Company, it needs to be earning a margin on costs of at least 15%.

Adstream has to be left alone as it is, but should cease to be a 'declared service'.

Yours faithfully,
(signature)

T.C. BOXALL