



# **SVITZER**

**Submission to Productivity Commission**

**Updated 21 March 2022**

**By: Svitzer Australia Pty Limited**

**Contacts:**

**Shafaq Rahman (Business  
Development and Projects  
Manager)**

\_\_\_\_\_

**Nicolaj Noes (Managing Director)**

\_\_\_\_\_

# 1 INTRODUCTION

Svitzer is a global provider of towage, salvage and emergency response services providing safety and support at sea since 1833. With over 180 years of knowledge and experience operating globally, we make port operations safer and more efficient helping ports increase berth productivity and ship owners reduce fuel consumption in a safe, reliable and cost-effective way.

With over 4,000 employees, a fleet of 430 vessels and operations globally, Svitzer is the global market leader in towage and emergency response.

Providing international coverage, Svitzer operates in four regions across the globe. These are namely,

- **Americas** region which spans 14 countries and 36 ports and terminals;
- **Europe** region covering 8 countries and 66 ports and terminals;
- **Asia, Middle East and Africa (AMEA)** region covering 9 countries and 10 ports and terminals;
- **Australia** region covering Australia and PNG spanning 2 countries and 28 ports and terminals.

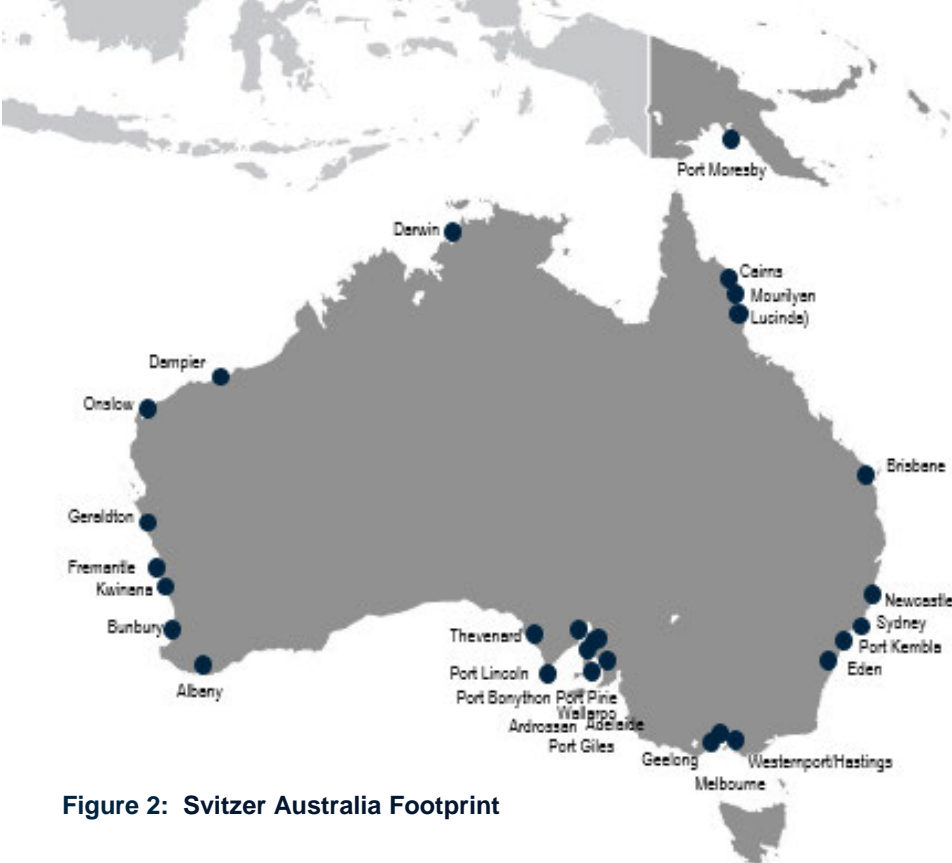


**Figure 1: Svitzer Global Operations**

Svitzer commenced operations in Australia in 2007 with the acquisition of Adsteam Marine Pty Ltd (Adsteam). Svitzer Australia Pty Ltd (Svitzer Australia), incorporated in Australia, is a 100 per cent owned subsidiary of Svitzer A/S (Svitzer A/S). Svitzer A/S a wholly owned subsidiary of A.P. Moller – Maersk A/S (Maersk), the global listed parent company, both of which are headquartered in Copenhagen, Denmark.

Today, Svitzer Australia provides a crucial link in the Australian supply chain and is the largest employer of Australia's seafarers, employing more than 1,000 people and completing over 50,000 harbour towage jobs per year.

Svitzer Australia utilises a modern fleet of over 100 vessels, servicing 28 ports and terminals around Australia and PNG. Svitzer Australia is extremely proud of its contribution to the Australian community and trade economy.



**Figure 2: Svitzer Australia Footprint**

Svitzer Australia’s three core business areas are harbour towage, terminal towage and emergency response. In harbour towage, vessels of all sizes require precise manoeuvring when berthing, unberthing and navigating narrow waterways. With our experience, equipment and training we can handle every possible vessel size, from the smallest of bulk vessels to the largest VLCCs. In terminal towage, we support some of the world’s largest Oil & Gas terminal projects located in a diverse range of environments. With reference to emergency response, Svitzer Australia services the Australian Maritime Safety Authority (AMSA) Emergency Towage contract.

# 2 NATURE OF TOWAGE INDUSTRY

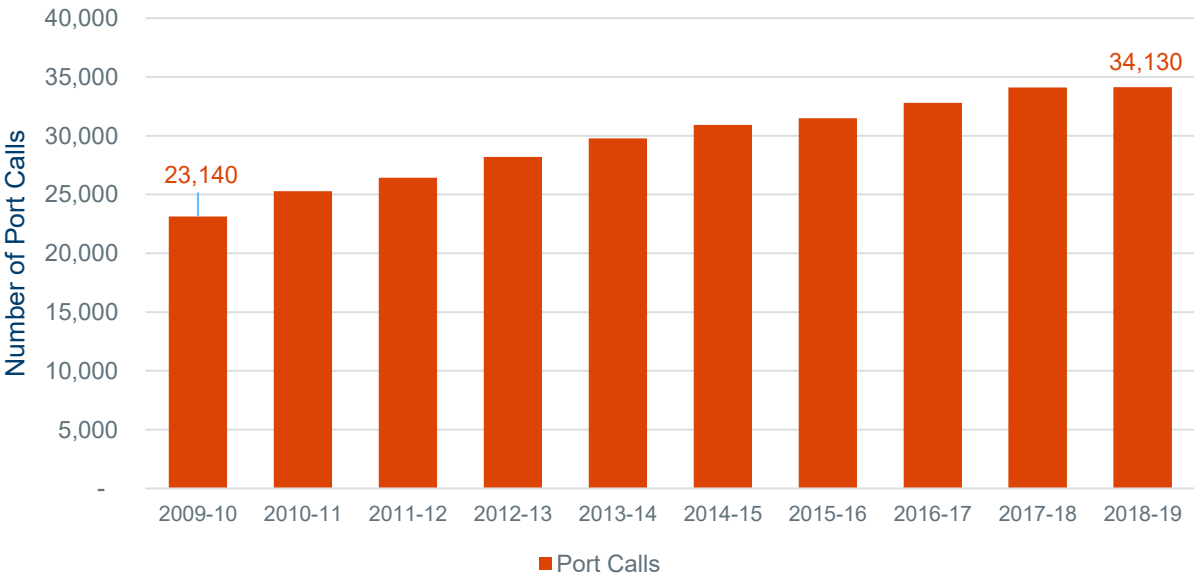
## 2.1 MARKET OVERVIEW

### 2.1.1 Demand Side

Demand for towage services is derived from port calls by ships into Australian ports. Traditionally, the trade task is divided into containerised and non-containerised cargo. Vessel calls for both containerised and non-containerised cargo create demand for towage as measured in tug jobs per vessel call. The towage requirement in a port is impacted by multiple factors including but not limited to physical characteristics of the port, clearances in channels, weather conditions, size and design of vessels handled, service quality specifications of shipping lines and operational requirements of the port itself.

The number of port call in Australia has increased by 47% from 23,140 port calls in 2009-10 to 34,130 9n 2018-19. This is a compound annual growth rate (CAGR) of 4.4% per annum.

**Figure 3: Number of Port Calls in Australia 2009-10 to 2018-19**



Data Source: Bureau of Infrastructure, Transport and Regional Economics, Australian Sea Freight 2018-19

**Over this same time period the number of tug jobs have followed a similar trajectory but are not perfectly correlated.**

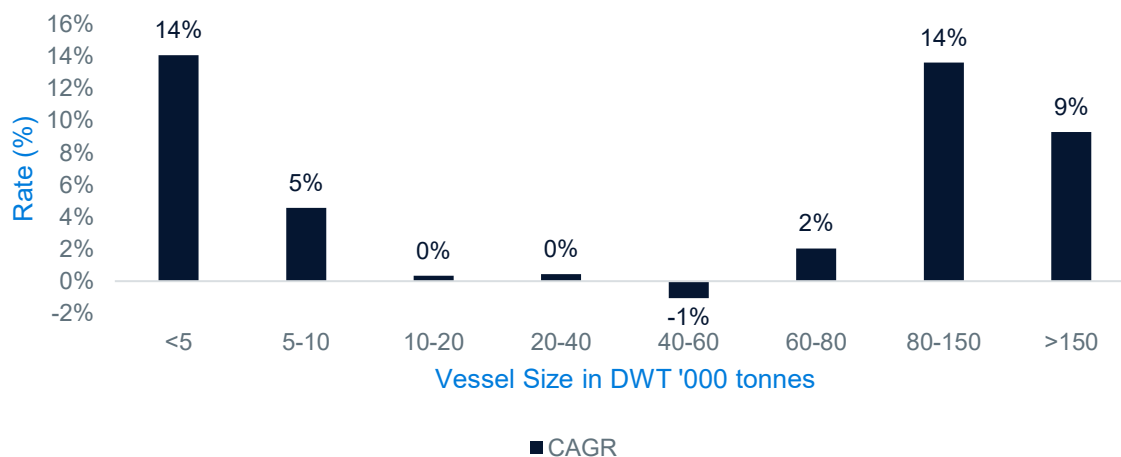
One reason for this relationship is the trend in the maritime industry towards larger vesels. For a given volume of trade, larger vessels mean fewer vessel calls at ports, but may require more tug jobs for at least some vessel calls. This is because, as ships increase in size, the number of tugs required to assist each ship in entering and leaving the port also tends to increase.

The graph below presents the compound annual growth rate between 2009-10 to 2018-19 of port calls by ship sizes at Australian ports. This shows the following tends:

- There is a trend towards larger vessels calling Australian ports, growing at a compound annual growth rate (CAGR) of 14% due in large part to better freight economics on larger vessels further bolstered by investments at Australian ports into channel deepening and wharf expansions.

- At the small end of vessel size spectrum (<5K tonnes DWT) this segment also saw 14% CAGR in port calls.
- For medium sized vessels (20-40K tonnes DWT) the vessel calls have remained steady over the ten year period.

**Figure 4: Compounded Annual Growth Rate of Port Calls by ship size at Australian Ports , 2009-10 to 2018-19**



Data Source: Bureau of Infrastructure, Transport and Regional Economics, Australian Sea Freight 2018-19

## 2.1.2 Supply Side

The national towage market in Australia is fragmented with a number of players and joint ventures operating in the towage service market and are listed below. A brief overview of towage providers is set out in Appendix A.

Towage Operators in Australia:

- Kotug Australia Pty Ltd
- Engage Marine Pty Ltd
- Engage Towage Pty Limited
- Bhagwan Marine
- Total AMS
- Rivtow Marine
- BHP Towage Services
- Pilbara Marine
- Daltug
- Transshipment Services Australia
- Broome Marine
- Pacific Tug Pty Ltd
- Mackenzie Marine and Towage Pty Ltd
- Smit Lamnalco Pty Ltd
- Wide Bay Shipping Services (JV)

- Coastal Tug and Barge (JV)
- Riverwijs Pty Ltd (JV)
- Port Lincoln Tugs Pty Ltd (JV)

There are further smaller operators and vertically integrated tug operators (for example Port of Portland or South 32 Groote Eylandt operations).

## 2.2 INTERACTION WITH OTHER OPERATORS IN MARITIME LOGISTICS

**Port Authorities:** The roles and responsibilities of ports vary from state to state dependent on the relevant legislation and also whether or not the port is privatised. In government owned and operated (non-privatised) ports, port authorities may own, manage and operate the port and be responsible for maritime safety and navigation. Accordingly they often (but not always) licence towage operations amongst other critical marine services such as pilotage and line running, stevedoring etc. They may also act as landlord and issue the towage operator with a lease for office and warehouse facilities and/or a lease/licence for tug berths.

**Privatised Port Owners:** In privatised ports, the port is granted a long term lease of the land in the port and charges access fees to its tenants. These access fees could be in the form of rent charges and/or infrastructure charges. The privatised port owner is unfettered in its ability to charge any amount of fees it wishes to access its infrastructure as the access seeker often has no other alternative. Increasingly we see that the port owner wishes to act not just as landlord by imposing rent but also encroaching on the regulator's role by imposing commercial and operational requirements on the towage operator. Example of privatised ports include NSW Ports, Port of Melbourne, Port of Brisbane, Port of Darwin, Flinders Ports, Geelong Port etc.

In a privatised port, the port authority may sometimes also be responsible for safe navigation, security, emergency and pollution response and accordingly, marine services licencing including towage.

**Agents:** The port agent is appointed by a principal usually the vessel owner or operator and provides the local services necessary for a port call by arranging pilotage, towage, and customs entry and clearance, coordination of ship's stores and spare parts as well as crew changes, crew medical, and service technicians.

Agents are often pre-funded by the vessel operating principals and operate according to a pre-calculated disbursement account. They often have the power of nomination of marine and other services on behalf of these principals and accordingly can be somewhat influential in determining or allocating market share for such services in the port.

**Pilots:** The pilot is usually either licenced by the Port Authority or otherwise an in-house function and comes on board near the entrance of the port and then assists the ship's captain with bringing the ship into port, and docking or anchoring in the designated anchorage. The pilot also helps provide safe passage when the ship departs. While on board the vessel control of the vessel is handed over from the vessel's captain to the pilot, who then issues direct instructions to the tug.

Pilots assist in assessing vessels and bigger / different vessel types coming into port usually by way of simulation studies. The pilots have the sole discretion to allocate tugs to each vessel movement and accordingly impact on the utilisation of towage assets in the Port. They also wield strong influence on the type and power of tugs that are used in the Port to which we have seen an ever growing requirement for higher powered tugs in line with the developments in size of vessels we see calling Australia's ports.

## 3 TOWAGE SERVICE EFFICIENCY

### 3.1 FACTORS CONTRIBUTING TO PRODUCTIVITY AND EFFICIENCY

The main factors contributing to productivity and efficiency are operational cost drivers including:

1. **High access cost to ports especially privatised ports:** in our experience, privatised ports charge higher rents to access its infrastructure than government owned and operated ports. We believe currently there is ineffective regulation to curb monopoly pricing by privatised port operators. Such higher costs will ultimately be paid for by users and consumers, which damages the productivity of Australia's economy, impeding growth, international competitiveness and living standards.
2. **Industrial relations terms:** Legacy industry terms which are designed to reduce flexibility, productivity and utilisation and which impose unsustainable costs on business which are passed on to end customers, such as:
  - Order of pick rules for relief work which restrict companies from efficiently allocating resources to meet operational needs that arise from fluctuating volumes and shipping schedules;
  - Restriction on employees performing essential duties even when they are being rostered and paid to perform work;
  - Minimum crewing rules which are not in any way linked to operational or safety requirements;
  - High penalty rates which do not correlate to the work actually done; and
  - Restrictions on recruitments and types of recruitments.
3. **Exclusive Port licences:** In most Australian ports, towage operators provide towage without the requirement of a licence from the Port Authority. There is currently a trend in issuing 'non-exclusive licences' however in some jurisdictions such as in Queensland, ports such as Gladstone Ports Corporation, Far North Queensland Ports Corporation Limited issue exclusive towage licences. Even when non exclusive licences are issued, ports tend to only issue 1 non -exclusive licence. The effect of these exclusive licences or 1 non-exclusive licence is reduced efficiency and productivity in the port. An exclusive licence is more likely to reduce the opportunity and incentive to reduce costs both through innovation and other cost reducing mechanism such as industrial relations reforms.
4. **Towage Assets:** The type of towage assets required for a port varies from port to port depending on a wide range of factors from geographical, safety and environmental factors to number and type of vessels visiting the port. Increasingly port authorities mandate more tugs in the port, more requirements for replacement tugs as well as larger and more powerful tugs. Such requirements should be balanced with considerations whether these are truly necessary for safety as increasing the number and specification of assets requires additional capex investment which ultimately has a knock-on effect on prices paid by consumers. Gold plated solutions may not always result in the most productive or efficient allocation of resources, instead market forces of demand and supply should be permitted to play out, although always subject to minimum safety considerations.

### 3.2 IMPEDIMENTS TO EFFICIENCY IN AUSTRALIAN OPERATIONS

There are multiple service providers operating in a port for each vessel serviced and the efficiency of the supply chain depends on reliable and responsive cooperation between all operators. Any disruption has significant flow-on effects for the overall efficiency of all operators and the supply chain generally.

In the context of this industry, the Australian industrial relations system presents significant challenges for towage service operators - and maritime logistics operators in general because of a power imbalance resulting from union misuse of industrial laws.

The maritime industry is characterised by high levels of union membership and the regular threat of overt and covert industrial action. Most maritime logistics operators operate under enterprise agreements made under the Fair Work Act in order to provide certainty of entitlements and operational stability. By general industry standards these agreements tend to be prescriptive and restrict the efficient deployment of labour. The content of the agreements is the result of historical disputes and practices which are increasingly inapplicable to current operator needs. However, modifying historical inefficiencies is practically very difficult, if not impossible. Indeed union claims are commonly directed to further restrict change.

It has become common for negotiations to extend for many months and often years after the expiry of an agreement. During this period the operator is subject to the threat and reality of protected industrial action. This threat is even applied to managerial decisions that are available to the company under existing arrangements.

The indefinite continuation of historical agreements, the deliberate extension of bargaining processes and the constant threat of very damaging industrial action, with consequences well beyond the direct employer, combine to hinder the achievement of efficiencies in the maritime logistics supply chain. Further, the lengthy renegotiation processes with no viable means to bring the negotiations to a fair conclusion operate to deny operators the stability they are seeking from making an agreement.

Removal of these barriers to efficiency will require a reconsideration of the operation of the Fair Work Act in relation to the maritime logistics industry.

Svitzer maintains a global network of towage operations and Table 1 below summarises key productivity data within the harbour towage operations of Svitzer Europe (including separate numbers specifically for UK only) and Svitzer Australia. Key points to note from the table below include:

(1) Productivity Data:

- Productivity across all regions has declined significantly from 2019 to 2021 due mainly to the Covid-19 related impact of reduced tug job activity
- Australia's productivity has reduced with the reduction in tug job activity from 2019 to 2021 by 10% in comparison to a reduction in productivity in Europe over the same period of 5%, measured by a higher number of average tug jobs per full time employee (**FTE**)
- Australia did enjoy higher productivity levels than Europe in 2019 but this has fallen back into line with Europe in 2020 and 2021
- The significant reduction in productivity in Australia compared to Europe highlights our inability to flex our crew costs in line with reduced activity levels, as a result of the inherent restrictions within our current enterprise agreement (as outlined in 3.1 above)



(2) Cost Data

- Australia has significantly higher ratio of tug job generated revenue over total FTE's reflecting the comparatively higher cost of towage services in Australia

**Table 1** Internal Comparison – Productivity Performance

Harbour Towage	FY 2021		FY 2020		FY 2019	
	Avg LTM tug jobs / Offshore FTE	TJ generated revenue / Total FTE's*	Avg LTM tug jobs / Offshore FTE	TJ generated revenue / Total FTE's*	Avg LTM tug jobs / Offshore FTE	TJ generated revenue / Total FTE's*
<i>Unit</i>	<i>#</i>	<i>ratio</i>	<i>#</i>	<i>ratio</i>	<i>#</i>	<i>ratio</i>
<b>Total Europe Region</b>	<b>8.2</b>	<b>0.23</b>	<b>8.8</b>	<b>0.21</b>	<b>8.7</b>	<b>0.22</b>
United Kingdom	7.7	0.20	8.2	0.17	8.7	0.18
<b>Total Australia region</b>	<b>8.6</b>	<b>0.45</b>	<b>8.5</b>	<b>0.39</b>	<b>9.6</b>	<b>0.42</b>
South Australia	7.7	0.50	7.7	0.48	8.8	0.50
Western Australia	7.5	0.42	8.0	0.42	9.3	0.46
East Australia	9.0	0.51	8.8	0.40	9.7	0.45

\*Please note that this ratio expresses TJ generated revenue in \$M

## 4 APPENDIX A

A brief overview of towage companies operating in Australia is presented below:

- Kotug Australia Pty Ltd (**KOTUG**) – a subsidiary of Dutch company Kotug International BV, which is active in Europe, Russia, Asia, Australia, Africa and the Caribbean and continues to expand its operations worldwide. KOTUG has a fleet of over 100 tugs and also participates in joint ventures and other alliances with local Australian partners such as KT Maritime and Westug. KOTUG was recently awarded a contract to operate a fleet for FMG in Port Hedland, the world's largest bulk export port. KOTUG will have a fleet of 6 tugs and 3 additional tugs to serve the FMG contract
- Teekay Shipping Pty (**Teekay**) – Teekay was established in 1973 and is headquartered in Norway. The company remains active in the market and has developed from a regional shipping company into one of the world's largest marine energy and transportation, storage and production companies. Teekay has over 8000 employees and offices in 14 countries. Teekay Australia was established in 1997 with the purchase of the Caltex Australia tanker fleet. Over the last 20 years, Teekay Australia has provided technical and management services to a diverse and global customer base, including Woodside, BHP Billiton, Toll, AGR, RIO and Caltex; Royal Australian Navy- Department of Defence, and Australian Customs and Border Protection Service
- Engage Marine Pty Ltd (**Engage Marine**) – formerly Westug, Engage Marine is headquartered in Perth, and has operational bases throughout Australia in the Pilbara, Whyalla, Melbourne and Bowen.
- Engage Towage Pty Limited (**Engage Towage**) – a joint venture between Engage Marine and Smit Lamnalco providing towage services in Botany, Geelong and Jackson.
- Bhagwan Marine (**Bhagwan**) – headquartered in Perth, Bhagwan commenced operations in 2000, focusing on offshore oil and gas sector. Bhagwan's fleet has reached about 170 vessels with 850 employees following the acquisitions of Brisbane-based MDT Maritime (small fleet of C-class tugs for charter in the Brisbane area) and Darwin Workboats Northern Australia. In December 2016, Bhagwan Marine was awarded a contract to supply marine vessels and crew on Rio Tinto's Amrun project in Weipa. Bhagwan has also expanded overseas. In 2014, it acquired UK based Marine and Towage Services (MTS) who operate throughout Europe.
- **Total AMS** – Total AMS was founded in 1999 as a specialist mooring installation and maintenance contractor and supplier of diving services and mooring products. It is a wholly privately owned Australian company based in Western Australia and is one of the longest serving C-Class towage companies in Fremantle and in other WA ports. The company has permanent bases in Fremantle and Onslow, along with project specific support facilities in Port Hedland, Cape Preston Dampier, Broome and other locations to suit their operations.
- Rivotow Marine (**Rivotow**) – Rivotow is a subsidiary of Riverside Marine, a family owned business conducting marine and shipping operations around Australia which has been in operation since 1926. In 2015, BHP Billiton confirmed that Rivotow had won the contract to manage its now largest fleet of tugs in Port Hedland. Rivotow manages the largest fleet of tugs in any port in Australia, with 18 tugs under management in Port Hedland. This allows for the largest bulk export port in the world to operate seamlessly. Rivotow also has operations at the Port of Hay Point In Queensland, being the sole service provider for the Billiton Mitsubishi Alliance for tug management and towage services at Hay Point. Rivotow operates a non-unionised crew model and offers a tugboat fleet based on safety, capability and cost-effectiveness, key factors in winning BHP's Port Hedland contract.

- Pacific Tug Pty Ltd (**Pacific Tug**) – Pacific Tug is a family owned and operated registered Australian company with their head office located in Victoria Point, Queensland. Pacific Tug’s main wharf is situated at Colmslie, Queensland and they have satellite offices in various locations around Australia. Pacific Tug has over 50 years’ experience in the marine services industry and operates a tug fleet of 13 tugs, 3 barges and 2 crew transfer vessels. The company’s tugs and crew have been contracted for dredging support on various projects in West Papua, Dampier, Adelaide, Newcastle, Brisbane, Gladstone, Botany Bay, Geelong, Melbourne, Hay Point and Port Kembla. In addition, Pacific Tug has undertaken a range of specialised domestic and international towing operations, including multiple tows around the Australian coast.
- Mackenzie Marine and Towage Pty Ltd (**MMT**) – MMT is a family owned Australian company founded in 1972, commencing operations in Esperance, Western Australia. Since 1972, the company has expanded to a fleet of 14 vessels and are specialists in the marine towage industry. MMT now operates in three divisions: Esperance, Marine Towage Solution and Henderson Boat Lifters in Fremantle. In 2014, Fremantle Ports granted MMT a towage licence to operate C-class tugs following MMT identifying that Fremantle Ports lacked mid-range bollard pulls tugs and an alternative lines boat operator for ship owners and agents.
- Smit Lamnalco Pty Ltd (**SMIT**) – SMIT was incorporated in 2005 and is based in Perth, Australia. The company operates as a subsidiary of Rezayat Group (Saudi Arabia – 50%) and Royal Boskalis Westminster N.V. (Netherlands – 50%). In 2014, SMIT acquired PB Towage Australia from its parent company, Pacific Basin Shipping Limited. SMIT has a fleet of 40 vessels and 300 people currently offering services, principally harbour and terminal towage services, in 10 ports, including Gladstone, Mackay, Townsville, Weipa, Port Moresby, in addition to operations in Brisbane, Sydney, Melbourne and Newcastle (pursuant to service level agreements with Svitzer).

A number of joint ventures also compete in the towage services market. They are listed below:

- Wide Bay Shipping Services – a joint operation between Pacific Tug and MMT. Both partners are Australian owned companies. Wide Bay Shipping Services refers to itself as the “only Australian regional port specialist towage provider”. It operates out of ports in Queensland (Rockhampton, Bundaberg, and Brisbane) New South Wales (Eden) and Western Australia (Esperance, Bunbury, and Fremantle).
- KT Maritime JV – incorporated in July 2012 as a joint venture company established by Kotug International B.V. and Teekay. In 2018, Teekay Shipping exited the joint venture, giving Kotug International B.V full ownership of the company. KT Maritime organisation operates 60 tugs internationally, with key projects in Australia, Brunei, Rotterdam, Bremerhaven, Hamburg and London. KT Maritime provides operational support services to LNG terminal operators and services all types of ships. It provides all towage operations for Shell’s Prelude floating liquefied natural gas unit and has four specialised infield support vessels for towage assistance at ConocoPhillips’ Bayu Undan floating storage and offloading unit. KT Maritime was awarded the first floating liquefied natural gas Infield Support Vessel contract by Shell Development Australia Pty Ltd in 2014. KT Maritime operates 3 Infield Support Vessels in Western Australia under this contract.
- Coastal Tug and Barge (**CTB**) – CTB was founded in 1966 as a partnership between Stannard Bros and A&J Semple & Sons. Today, CTB operates in collaboration with the Darwin Port Corporation and Svitzer in Darwin. CTB services the demands of Darwin Port’s LNG, Navy, live export and car carriers with a 15T bollard pull vessel, a 47T bollard pull vessel and a 49T bollard pull vessel.
- Riverwijs Pty Ltd (**Riverwijs**) – a towage and marine service provider combining family-owned Australian business, Riverside Marine with Danish international towage company, Svitzer. Riverwijs currently operates LNG terminal towage the at the Withnell Bay export Terminal in the Port of Dampier, Western Australia. This facility is operated by Woodside on behalf of the North-West Shelf Joint Venture Project. Riverwijs also operates the Pluto LNG terminal in the Port of Dampier, for Woodside Energy as well as providing harbour towage services and tug assistance in the Port of Dampier and the Port of Bunbury, Western Australia.

- Port Lincoln Tugs Pty Ltd – commenced operations in 1953 in Whyalla with a single tug. Today, Port Lincoln Tugs Pty Ltd is 50% owned by Svitzer and operates a fleet of eight tugs in Port Pirie, Port Lincoln, Thevenard and Wallaroo in South Australia. In these ports, Port Lincoln Tugs services carriers across the energy and resources, and agricultural sectors. Its vessels range from 28T bollard pull to 41T bollard pull.