



**TRANSCRIPT  
OF PROCEEDINGS**

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**PRODUCTIVITY COMMISSION**

**INQUIRY INTO ECONOMIC REGULATION OF HARBOUR  
TOWAGE AND RELATED SERVICES**

**MR T. HINTON, Presiding Commissioner**

**TRANSCRIPT OF PROCEEDINGS**

**AT BRISBANE ON WEDNESDAY, 10 JULY 2002, AT 12.15 PM**

**MR HINTON:** - - - for towage and related services, and this process today follows on from the release of our positions paper that was on 6 June. My name is Tony Hinton. I'm the presiding commissioner for this inquiry, and the purpose of this hearing today and this round of hearings is to facilitate public scrutiny of our work regarding this inquiry and obtain comment on our position paper. Following the hearing here today in Brisbane we'll also hold hearings in Sydney tomorrow and in Melbourne next Monday.

We will be working towards a final report in accordance with the established timetable such that we'll submit it to government by 20 August. That's six months after our terms of reference. Participants in the inquiry will automatically receive a copy of the final report once released, and that release may be up to 25 parliamentary sitting days after completion. As I've said to a couple of you already this morning, we like to conduct these hearings in an informal manner. We think that's more conducive to productive exchange and the exercise itself. But a full transcript will be taken, and for this reason during the course of the hearing I won't be taking comments from the floor, but at the end of the scheduled proceedings, I'll provide an opportunity for any person to make a brief presentation if they so wish.

Participants are not required to take an oath but should be truthful, of course, in their remarks, and also participants are most welcome to comment on submissions and remarks by others. One of the processes that we try and follow is a healthy exchange of views where nuances exist or differences of view exist. The transcript will be available to participants from our web site following the hearings, and copies may also be purchased using an order form available from the staff here today. Similarly, submissions to this inquiry are also available from our web site.

At this stage I would now like to welcome Greg Smith - welcome, Greg - from the Port of Brisbane and his colleague Allan Turner. What I'd like you to do at the start of the process is for the purpose of the transcript to indicate your name and the capacity in which you attend this hearing, and I also would of course welcome you to make an introductory statement if you so wish. But in that context I mention also that we appreciate the submission that the Port of Brisbane has made to the Commission. Thank you for that, and I assume that you'll be referring to that through the course of this morning's hearing. Over to you.

**MR SMITH:** Thanks, Tony. Greg Smith, general manager of operations at the Port of Brisbane. Thanks very much for the opportunity to comment on your paper. We think it's a very well-constructed paper to start off with. As far as this being an informal gathering, you're in Queensland now so we'd better tell you all about informal gatherings in Queensland. There are a few dot points. We have issued a statement or discussion paper which any of the participants that are here today we can make that available to. It has already gone out to a few people. This is a clean draft copy and we need to recirculate that back to government and a few other areas.

But there are a few things that we would like to say on behalf of ourselves, the

Port of Brisbane, and I'm sure that some of our comments will reflect other ports in Queensland and could reflect some other ports in Australia, although it's not our capacity to represent those ports. Obviously that's the capacity of AAPMA. Conditions in Queensland are somewhat different to other ports, so there are some parts of our paper which I think will probably differ to other port situations around the country.

The first thing we just wanted to mention was that Brisbane is a landlord port. It has evolved that way, where the corporation itself manages the land. As such the towage operator becomes basically a lessee of the port itself, so we have a customer-principal relationship with that lessee. So, apart from that, the way the legislation is structured at the moment, Brisbane doesn't have the right for licensing, although we do make some comments on licensing, and I'll come back to that in a minute.

As far as the physical situations that we have in Brisbane, we feel that some of the comments that have been made by Adelaide Steamship in their submission are not particularly pertinent to this port. We do find that there has been either a static or a slight growth in the actual number of ships coming to the port as well as the size of the ships. It is obvious, though, through technical innovations in some of these ships that are being displaced into our service that things such as bow thrusters and variable pitch propellers do have a limiting factor on the amount of tugs that may have been traditionally employed in berthing and sailing ships in the past. We have found that particularly with the tankers. Where the number of tugs would have been three to berth a large tanker in the past are now down to two, and the same with some of the container ships. So although we acknowledge that the total number of towage jobs may have dropped, particularly in the last 12 months, we feel that that's been somewhat compensated for by the extra number of ships calling at this particular port.

We'd like to just make a few comments on price surveillance of the past. We do feel it's necessary, although again we acknowledge before the takeover of Howard Smith by Adelaide Steamship we didn't see that there was a real problem as far as pricing was concerned. There had been some increases in the tariff but they had been basically accepted by the ACCC. It was only after the takeover of the Howard Smith organisation that we saw basically what we feel is an unwarranted and unaccepted increase in the marketplace, obviously against the ACCC but also against the industry and all sections of the industry. That makes us rather nervous because we feel that this is the first sign of possible monopoly pricing power being exercised. If it's been done once, we want to know exactly when it's going to finish and how it can be contained.

In that particular aspect, I'll make reference back to the recommendations of the Commission, but we do feel that it is necessary to have some form of price surveillance or price control, mainly because there is just this single operator in most ports, and of course in Adsteam's case it's all the east coast ports or most of the east

coast ports.

As far as pricing is concerned, the issue that we feel there is when it is too much enough to actually sway the market. We know at the moment with the shipping market that, although we've had some very healthy price increases this year, it's still debatable whether or not that could be enough to sway the market or shipping companies in calling various ports. We don't think that is, but again the first step has been made in increasing these prices against the advice of the ACCC and also industry, so our question there is: just when will that finish?

The threat of entry we feel is probably one of the greatest influences on the major container ports on the east coast at least, being Sydney, Melbourne and Brisbane. We do acknowledge that the smaller ports have more difficulty trying to control pricing and probably less influence. We have noticed through the Bunbury experience, also Fremantle - I'm not saying any of these ports are small; I'm not trying to make that out, but at Bunbury, Fremantle and Gladstone there have been advantages associated with licensing or some form of licensing. In this port, in Brisbane, we've always worked on the premise that the threat of entry by a competitor is enough to actually at least to put pressure on the price tariff that we have.

At the moment we have a situation where Melbourne has already basically opened up to a second entrant, and the rumours are rife that that will happen in Brisbane and in Sydney. I'm not in a position to actually confirm or deny that, but it would be fair to say that we have had inquiries from competitive towage organisations for a service in Brisbane. It would also be fair to say that Brisbane as a port has looked at the possibility of entering into towage services ourselves, and that's something we're still testing at the moment to see whether or not there is any value back to the shareholders, because we are a commercial organisation, but also whether or not that will allow competition in the market, not for the sake of the port just dabbling in that particular service; it has obviously got to make a profit.

With licensing, we disagree with Adsteam's statement, our parent organisation, AAPMA, and also some of the comments made by SAL. However, because of our internal situation we are still debating whether or not exclusive licensing would be a major benefit to our port. We are looking - and we have said this in the past to SAL for Brisbane - for more pressure from the shipping industry itself to be applied back into the towage market, at least to try and stabilise pricing.

As far as the threat of entry is concerned, and the cost of tugs, we have reviewed that ourselves. We don't believe that the capital cost of the equipment has to be basically made in the investment of new equipment - that it can be taken through the second-hand market. We agree that there is quite an active second-hand market for tugs. Like all forms of shipping, there are ballast legs involved and mobilisation costs, but that's a risk that the entrant takes in setting up that service. In a port like Brisbane we feel that there's probably enough shipping to at least recover

those sunk costs, but again as to other ports I think that would be probably debatable,

depending on the size of the port. But again I can understand why ports have gone the exclusive licensing side.

I think it's up to government to actually respond, obviously directly but, as I said before, the way that Queensland is controlled by the legislation, Brisbane itself doesn't have the exclusive licensing or any licensing authority under the legislation. I believe that that's actually under review at the moment, and there is a chance that we, along with all the other Queensland ports, may end up with that authority. That in itself - and I agree with John Hirst in some of the remarks that he's made here - we feel is a threat to a monopoly situation inasmuch as the port in its discretion could exercise at any time a competitive tender to introduce a second operator or introduce a sole operator, just depending on the circumstances.

One of the problems that we've got with exclusive licensing - and again we're debating this internally - is whether or not there is propensity for lockout of technology or basically a buying in of a certain price as far as towage is concerned with an exclusive licence. So, in the case of a five-year licence, whether or not that basically does set a cost which may be below the current market or at least level with the current market, it guarantees the price for that period, but whether or not by doing that you then close out any possible advancements in technology which could lower the cost of towage - and we notice some of the comments by SAL along those lines, that one reason why the major shipping companies do not create a situation where they could negotiate exclusive contracts or contracts with towage companies is that constant threat that there may be a lower price around the corner. We can understand that, but to a certain extent we're not 100 per cent happy that a port corporation should have to take on the responsibility. There are extra costs associated with that and the port corporation obviously, being a commercial entity, would be looking to pass that on to the end user.

There's also the control of a tender situation, which is not an easy thing to do, and again I can understand some of the difficulties that the shipping industry has in just uniting on freight rates, let alone trying to set down maybe a national contract with a single towage company. But again I would stress that I do think personally that that's one avenue that the shipping market should be looking at.

The other thing that we're a bit nervous about obviously is that by issuing an exclusive licence we basically sanction an authorised monopoly. That does concern us a little bit and it's something that we're still debating internally. On the positive side, of course, with the port moving into any type of contract for towage we do have the right then to exist on KPIs and we can offer what we hope would be some improvements in standards as well as decreases or at least stabilisation of costs.

One of the biggest problems that we see in the towage industry at the moment with the pricing is still the salvage capability of tugs. We feel that that is probably very pertinent to both the Brisbane market and the Gladstone market but probably exists in all the Queensland ports. I'm not 100 per cent sure on that. We obviously

are not trying to suggest that we should forgo our need to protect the environment, especially the Great Barrier Reef, but the situation we feel does exist that port users of Brisbane are being penalised for a salvage capability which is well exceeding our port limits.

What we would suggest and we feel is necessary is further involvement by the government to look at this salvage situation around the coast and possibly look at the UK as an example, the UK environment where there are specialised salvage tugs placed strategically around the coast. Obviously we do have strategic areas - the Great Barrier Reef, also Bass Strait and parts of Western Australia of course. So we do feel that although it is an onerous task it is a situation where we should be looking for the user to pay. We're quite aware of the Lloyd's open form agreement with towage and salvage, and we're not sure, we cannot see a support corporation that that's actually applied back in to our harbour users as rebates for the cross-subsidies that they're already paying for.

So just reviewing the recommendations, the first recommendation, harmonising qualifications and regulations, we're in full agreement with that. We wish that could actually maybe go a bit outside of the towage market and into various other areas of maritime operations around Australia. The ability to license by a port authority, we are basically in agreement with that but as I say probably as a last resort. Number 3, if there's no other surveillance tool - we disagree, we feel there should be some form of price surveillance in some form. There's different mechanisms and different paradigms obviously; some going to be more successful than others. But there must be some form of surveillance because we're very fearful that the price increase we've just seen is just the beginning. Unless there is some control this could take on unlimited dimensions.

Number 4, when it comes back to prolonging the current surveillance type of operation for a further three years, in the event of no other better tool that could be developed then we would be in full agreement with that for obvious reasons. So that concludes the dot points that I've got. As I say, all of this is contained in our discussion paper which we can make available should people wish.

**MR HINTON:** Thank you very much for that quite detailed and very substantive presentation. I appreciate it. What I'd like to do is explore some of the issues you raised to elaborate some of the points. In particular I'd like you to look at this question of barriers to entry. You've alluded on a number of occasions to the expectation that most, if not all ports could only sustain one service provider longer term. You implied or you in fact said that the larger ports perhaps could handle more and you've also referred to recent developments regarding a second entrant in Melbourne and the possibility of moving to Sydney and Brisbane. I'd like you to give us your views on your assessment as to what sort of barriers are there to a

second service provider coming on to the market in circumstances where it hasn't been a frequent occurrence with this industry in Australia to date. There may be a recent example but history suggests that it hasn't been occurring. Maybe there have been special factors for that but I'd be interested in your comments on the question of what barriers to entry do exist regarding the possibility of that sort of open market competition for harbour towage.

**MR SMITH:** Okay. We basically feel that the cost of capital obviously has been a major barrier as far as a new entrant coming into the market and traditionally that's been based on tugs with salvage capability. We know that tugs with salvage capability are up anywhere between the 10 and 12 million dollar mark, as opposed to harbour tugs which can be as low as \$6 million. We understand why there has been basically a barrier to people or other organisations considering setting up in this country. We also feel that the restricted market in Australia obviously hasn't given the same opportunities as other areas around the world, especially in South-East Asia. So we assume that international, multinational operators of towage services would chase the best market in Australia probably wouldn't in the past have offered that market. It could be questionable whether it does at the moment or indeed whether it will in the future. There are definitely bigger ports and different operations that may be more attractive.

But what we are seeing is there is a good second-hand market for tugs. There are two classes - there's more than two classes but we've got this basic differential between salvage capability and harbour tug movements. In a port such as Brisbane where we're a sheltered port, the actual port confines are at least 80 kilometres within the shelter of a major bay and also in a river system. So we don't feel that a new entrant could possibly face the same barriers that maybe existed 12 months ago. We feel under the right circumstances that chartering tugs, albeit that there would be a positioning cost of the equipment into the country, would not be a serious barrier to entry, provided that the market could sustain a second operator. That's all going to come down to volume and something that that particular entrant would have to examine before they moved into the market.

But what we've seen in Melbourne there's - I don't know if it will always continue but there's definitely two towage services down there at the moment and neither one of them has gone out of business just at the moment - making a lot of rumours but it seems to be working quite well.

**MR HINTON:** As a port authority would you be concerned that the arrival of a second service provider could have the potential of being destabilising for the service provision if there is only a capacity to sustain one service provider longer term? Presumably if two can be operating longer term profitably in Brisbane, then you would probably welcome that competition. But if longer term only one can be



sustained, would you as a port authority be concerned that that could be seen by the sector more generally and the industry more generally as something to be avoided.

**MR SMITH:** Yes, that's probably our biggest fear that we could get a second entrant into Brisbane that hasn't researched the market properly and may have legs there for 12 months but then basically collapses, and the effect that would have on the reputation of the port. So Brisbane has always been seen as a port that sponsors competition. We've done that with stevedores. But the actual fact is that we've got one of the three stevedores that was in the port that has since left. We do feel that it could possibly be damaging. Unfortunately in Brisbane at the moment we have no control over stopping an entrant from coming into the port, provided they can find berth space for their tug fleet and they meet the safety obligations through the Department of Transport, there is really nothing stopping that entry coming into the port. But that is our greatest fear that should that fold in three or four months then the damage to the reputation of Brisbane.

**MR HINTON:** Coming back to your earlier comment - it's in your written submission as well - about the judgment that you do not as a port authority have capacity to enter into licensing arrangements, contractual obligations or an open tender system for a service provider for harbour towage. It's a question to my mind as to whether it's a sin of omission in legislation giving you authority or whether there's legislation that actually precludes it. I'd be interested in your comments as to why you think the port of Brisbane cannot pursue say an open tender arrangement to license under exclusive contract a service provider for harbour towage if there is no legislation that prohibits it. Do you actually need explicit legislative power to do so?

**MR SMITH:** We believe so. We think the legislation is quite explicit and we've had some discussions with government on that. I mean, there are named ports that have the ability to license and Brisbane is not one of them, so we take that as a letter of the law that's printed basically and we press that no further. That actual legislation is under review and we have given comments to government on that and I think there's a final report that's due out reasonably soon. As to why Brisbane was omitted I couldn't tell for sure, I wasn't here at the time, but it would appear to me that it may have been the case with Brisbane that the legislators of the day realised that Brisbane was a larger port and that through the threat of entry that open competition could actually be the best form of regulation in this port. Again that's something we're still debating internally, whether we should have licensing or not, whether the threat of just a new operator coming into the port is sufficient to maintain the pricing.

One thing in support of that, we haven't had any price increases in Brisbane. As a matter of fact we had a few decreases up until this year. Even then we suffered the lowest of the increases of the other points. So I suppose the question could be asked by some cynical people is we were paying too much in the first place. But that

could be my only comment as to maybe why the legislation was drawn up that way in the first place.

**MR HINTON:** Which takes us down to the option that you've also referred to of seeking to retain or have some sort of government intervention with regard to price surveillance, price monitoring in some form or other. A prior question that comes to my mind is whether or not given the existence of that it could in fact be a discouraging factor for what seems to be your preferred position of having competition for service; that is if the sector is subject to some sort of government intervention by price surveillance, price control, price monitoring, is it not a possibility that the existence of that intervention could in fact discourage a new service provider coming on market to challenge the incumbent.

**MR SMITH:** It could well do. Basically I'd have to look - if I was a towage operator, and coming from the commercial shipping sector, I mean, we dealt with towage companies all the time, in multinational towage companies. We had a reasonable understanding of the way they operated. But the fact of the matter is that Adsteam has been in a position to buy out Howard Smith. It's a company that seems to be making quite good profits. They're involved in towage not only in this country but in the UK and the United States, but it seems to be the Australian operation which definitely feeds a lot of the profit stream. So I wouldn't see that any type of price surveillance, locking in a price at its current level, would be enough to deter a new entrant, depending on the type of equipment that they were going to invest in and the rate of return that they were looking for.

But it's obviously suitable for Adsteam at the moment so I think that's probably enough reason why Australian Maritime Services, may have actually decided to take what may have been perceived as a gamble.

**MR HINTON:** This perhaps is a question not directed at the right responder but you may have comments - and I'd welcome them if you do - on the downside of regulation, or do you not see this sector having characteristics whereby government intervention by price surveillance, price control, price monitoring is costless or does it have any disadvantage to the operation of the sector?

**MR SMITH:** Yes, I think there are disadvantages and one is the administration of the price surveillance, depending on how it's done. If we talk about contracts - exclusive contracts or multiple contracts - there is obviously a cost associated with that. There's a cost of tendering, there's a cost of the ongoing administration. In the case of Queensland ports we're GOCs. We're charged with being commercial identities and returning profits back to the government. So we would be expecting to pass on any cost obviously back into the shipping industry which of course is going to increase the cost anyway. I think probably regulation for regulation sake, yes, is

something we should avoid without doubt. A free market situation is obviously going to be better but the situation we have at the moment - I'll be the first to admit - is that we just have one single operator and that seems to be a very difficult point to overcome.

So considering the increases we've had of late and, as we say, what we feel are unwarranted in the fact that we do feel they are moving into a monopolistic pricing situation, then we do feel you have to have some type of surveillance, regardless of the cost, but we do appreciate there's costs attached to it.

**MR HINTON:** I'd like to explore with you the role of the port authority and you mention two possibilities, among other things: one is a framework where the port authority itself becomes the service provider for harbour towage and the second is the port authority acting as a coordinator or actual agent for the shipping lines to license, contract out, whatever the harbour towage service through an exclusive contractor or otherwise. I'd like to hear your comments on the first aspect first. You mentioned the Port of Brisbane was looking at and has looked at the possibility of being the service provider itself. Why would you wish to do that? Is it part of your core function - maybe it's not? Is it seen as an advantage, an inherent aspect of port activity? What sort of considerations arise as to that particular option?

**MR SMITH:** Yes, in the past it definitely hasn't been a core activity, there's no two ways about it. I mean, ports basically in this country are based on the landlord principle, apart from a few. The Port of Brisbane has taken the view, especially in the last four years, that we are a commercial organisation and apart from our responsibilities back to our shareholders, we also have responsibilities back to our customer base, the shipping industry. If we can facilitate trade in any way then we have an obligation to do that. Looking at the current situation in towage there could be a possibility where the strength of the organisation in its balance sheet could be used to either purchase capital equipment or to lease capital equipment. We are resident in the port so we're already based in Australia, so we don't face the same barriers to entry which may exist to offshore companies. It's something I think the port needs to explore and continue to explore, even if that's just used as a deterrent to the existing operator as far as pricing increases are concerned.

All we're doing is taking the role of maybe somebody that's just not 100 per cent sure for some unknown reason of why they should actually enter the Australian market, so for us it's a good test. It's also an opportunity for us, if there is a commercial situation where we can return a decent return on investment back to our shareholders, to look at increasing our profitability as a corporation.

**MR HINTON:** Do you think this would be an option that would be a government monopoly, or would it be in fact an operation where there might be more than one

service provider?

**MR SMITH:** There would definitely be more than one. I mean, we already had one, so we'd be looking at going into competition against the operator that we've got at the moment. But, again, we need to do our homework. It's no good the port setting up an opposition company if the market can only bear one operator. We're not there to create a government monopoly, we're there to try to return some benefit to our customer base, so we would have to be very comfortable that there was room for two operators to move into the port. Again, this is something that's probably - I won't say it's unique to Brisbane but it would be unique to only a few ports. I wouldn't suggest that every port consider this, and as a matter of fact the ports that have looked at or taken up exclusive licensing I think are probably more suited because of the size and the volume of trade going through. So I can understand why they took that route, and I think they have been able to return economic and commercial benefits back to the user. But in Brisbane I think there is an opportunity there at least for us to examine.

**MR HINTON:** Would you perceive any potential conflict of interest in a port authority doing this?

**MR SMITH:** Yes, there's a big one. As a matter of fact, the towage operator we have at the moment is also a lessee of the port, so there is a customer relationship there, but that's a lessee based on a land-only deal. We supply the land and also the berths, and I couldn't see that a conflict of interest would be sufficient to actually cause a major problem.

**MR HINTON:** I had in mind also that if you're pursuing a commercial activity you might be seeking to price harbour towage that generates a profit line that might not necessarily be in the interests of the users of harbour towage.

**MR SMITH:** Yes, some ports could do that. I don't think that would be the case, because I think port corporations in this country are charged with a commercial environment to return the best atmosphere they can to their end users, obviously to get as much shipping as they possibly can through the port. One thing that we do have here - and I know it's often referred to as a lack of competition on the east coast of Australia, but I can assure you there's more than competition and we fight for every container we possibly can. To lose a shipping line - and this port has been through that situation, obviously quite some time ago but with West Coast America vessels calling Sydney. We're painfully aware of that tonnage that we could have going through the port, so we're looking to create the best commercial environment to attract shipping into the port.

**MR HINTON:** Let's move on to that second option I referred to, and that's the

scope for a port authority to act as in effect agent for the shipping lines or the users of harbour towage and enter into a tendering system for an exclusive licence for harbour towage. Your written submission raises questions about that, as to whether that is the desirable course of action or responsibility for a port authority, and this morning in your introductory comments you referred to - that that would not be costless in terms of actually undertaking a tender, pursuing a consultation process with the users and putting in place a proper decision-makers process. I'd be interested in your comments as to the dynamics of that sort of role in circumstances where some have put to us, in very strong terms prima facie, that that particular task or that responsibility or that option could produce significant benefits for the operations of harbour towage. Please elaborate as to why you seem to have some discomfort as to the Port of Brisbane pursuing that option.

**MR SMITH:** I personally feel that the party that can influence pricing the most through pressure is the end user, because potentially that is the demand. So we're talking about a supply-demand type situation. So the shipping market itself is the area that can quite definitely apply the most pressure. Granted that shipping traditionally is fragmented and, even if we break it down into the individual types of shipping between say the wet bulk, dry bulk and the liner industries, it would be difficult - and I'd be the first to acknowledge that especially in the bulk segment you could bring the owners together to be able to form the basis of an organisation that could negotiate a contract, only because you have so many tramp ships out there and so many different owners. So I would be the first to admit it, but I think there are other avenues where you could use maybe the bulk commodities group or the shipper groups, and I know that the pricing of their commodities is usually based on an FOB situation, but I think for the benefit of the industry those avenues could be examined.

As to the role of the liner markets - and this would come back to SAL probably as being the vehicle - I would see from a personal point of view, and again acknowledging that the liner companies do have troubles meeting their own freight agreements as far as what they're going to do as freight rates and competition in the liner markets is probably more extreme than a lot of industries in the world and at the moment every dollar counts. But if it was at all possible where you could unite owners into a single body to negotiate a towage contract on, if not a national basis, an east coast basis, a major line of ports, I think there would be significant pressures that could be applied which would be more than what port corporations could do on an individual basis.

I'm not saying that licensing through a port corporation is out of the question. I think probably as an alternative that there is merit to that, but I don't think it can apply the same pressures on the pricing environment of the towage industry.

**MR HINTON:** But you'd see if it were to take that responsibility it would be

crucially important that consultation with the users be part and parcel of the port authority's - - -

**MR SMITH:** Yes, totally. As a matter of fact, that's one of the areas that's quite interesting. We would have an obligation to involve the users, the shipping companies themselves, in any type of price negotiations, but in fact we're taking on a de facto role in their own organisation, because they would have to be part of a negotiating team, there's no two ways about it. They're the end user. That really leads to my original comments. If the end user needs that participation, and we accept that that definitely is the case, then wouldn't it be better for the end user to actually apply as much pressure as they can as a united body directly rather than through individual ports?

**MR HINTON:** Do you think that the shipping industry, the users of harbour towage, have in place the mechanisms for this sort of consultation process?

**MR SMITH:** I think the basic mechanism is there through SAL as far as the liner industry is concerned, although that obviously doesn't represent all of the market. I think that's a quality organisation that has the faith of its membership. Maybe something like this is a way of attracting more members to get a united front for a common good. That's always been the problem with the shipping industry. There is no such thing as a united front for a common good. There's an individual advantage for every single company.

**MR HINTON:** Before we get onto salvage or to the related services aspect of the inquiry - and you did mention salvage but also mooring lines is another area - I'd just like to explore further, and it's coming back a bit on an earlier topic, the role of surveillance - price surveillance, price monitoring or declaration that currently exists. You seem to be putting forward a view that, while licensing is a possibility and open market competition may or may not be occurring depending upon the port, whatever happens, there should be some sort of process of a role of the Commonwealth Government that has to some degree some sort of price surveillance, price monitoring. I'm a little unclear as to how that might work in circumstances where some may already be in either of the two options that I've mentioned, that is, an exclusive licence that has already been reached under open tender and/or open market with more than one service provider seeking and pursuing market share in a larger port. There would seem to be some sort of potential conflict in a system of price surveillance, in whatever form it might take, if those other two are already operating. I'd be grateful for your reactions.

**MR SMITH:** Yes, I agree. I think we're talking about price surveillance now because we don't have that situation. We have a sole operator who has exercised a right to increase tariffs which are shown to be unjust. If we had a multiple situation

of operators in the port, I still think that there is probably a possibility of some form of price surveillance, although it would be very minor, because natural competition should takeover. But we have a duopoly as far as stevedoring is concerned, and I'm not saying that they're conspiring to manipulate prices, but there is an opportunity in a dual operator situation to still manipulate the market so operators are paying more than is warranted. So I still think that there is some form of price surveillance that's necessary. I can see myself personally that we would ever get a situation where you would have more than two operators in the large ports let alone the small ports, so I just don't think you'd ever come back to a true situation of multiple towage companies operating in a single port offering sufficient service to keep that competitive threat up at all times and assure the industry that they're getting the best possible deal.

**MR HINTON:** You've mentioned the Port of Brisbane and the AAPMA. Are you comfortable that there is an active consultation process across Australia? Do you feel that Brisbane is isolated or Brisbane is the sole sort of specific Queensland activity, or do you feel that the industry itself is operating as an association quite well?

**MR SMITH:** I definitely think that the port industry is operating as an association very well. We've taken advantage of the fact that you're in Brisbane to offer something that we think may be able to increase the scope of the inquiry. It is very Queensland-centric, and even more so it applies to Brisbane, because we are the Port of Brisbane, so we're commenting mainly on a unique situation that we feel maybe in Brisbane. But we've got full faith in our industry representation, our national body. We feel that there's sufficient port representation from different ports to give an overview of a port industry environment and opinion but, as I say, we just took advantage of the fact that you were in Brisbane to put our own point of view across.

**MR HINTON:** I'm not seeking to in any way question that. In fact, we welcome it. Let's move on to the related services aspect. You, in referring to salvage, rightly in my view - and I think we'd all share the view that it's crucial to have systems in place that protect the environment and the coastline more generally. But you referred to a role for government, "greater involvement by government" I think were your words, and I assume you were referring there to the Commonwealth government. I'd be interested in this too: what sort of type of action or intervention you should be occurring with regard to salvage in terms of Canberra activity here, Canberra responsibility. What do you have in mind?

**MR SMITH:** What we're basically suggesting is that we feel that there's a fundamental cost factor involved in salvage capability, and at the moment, the way that the salvage tugs are positioned around the port, it definitely, we feel, prejudices some ports in their cost structure. We attended a presentation and conference

organised by our national body down in Sydney, where we witnessed what was happening in the United Kingdom and how the government had taken specific moves in the United Kingdom to establish a salvage-only fleet. We're probably not as mindful as our northern neighbours as far as the impacts of the Great Barrier Reef, but we fully appreciate having a port in the middle of a world heritage national park or marine park and the importance of conservation of the marine environment. So we totally acknowledge and support the fact that this country needs a salvage fleet; there's no two ways about it.

What we're saying is that it may be better placed around the coast and that the cost structure involved in maintaining that may be more directly placed back onto the industry through another type of mechanism. I would imagine that, because of the size, the vastness of the Australian coast, the only way that could be achieved would be with a Commonwealth basis. I think the government would have to get involved. But maybe it can be done on a state situation. The only problem there is again the cost burden will fall to the major areas where salvage traditionally has been experienced, and that's going to be the Great Barrier Reef and Bass Strait. So I think there's got to be an equitable solution as far as costs are concerned and cost sharing is concerned when it comes to salvage capabilities.

**MR HINTON:** So who do you think should share this burden?

**MR SMITH:** Obviously the shipping industry. I mean, the shipping industry are the users of the salvage capabilities. I fully appreciate that they only use them when they're in the most hideous of situations. But the fact remains that it's that industry that utilises salvage and it is for the protection of our environment. So again I think that maybe that's where the government's response comes back in. But the fact of the matter is in ports such as Melbourne and in Sydney - maybe less in Sydney than Brisbane and Melbourne. But we have an advantage that we can use harbour towage services, smaller tugs, just as powerful but I wouldn't like to see one of those in a deep-sea salvage situation. I'm not a master mariner but there's no way in the world I'd like to go to sea in one of them.

**MR HINTON:** Mooring lines, it's an ingredient or an input into port services and harbour towage in particular. As a port authority do you have any views as to how well that particular component of port services operates or has been operating? Do you perceive any difficulties or scope for improvement? Is there any regulatory impediment for efficient service provision?

**MR SMITH:** No, I haven't actually examined it in close detail, I've been concentrating more on the towage side of things. But I don't see that it's a major problem in Brisbane. I think there's adequate provision of service and it seems to be at a reasonable cost. I haven't had too many complaints from the industry or heard



too many complaints. Any service provider on a 24-hour basis is probably going to run into some type of problem sooner or later as far as delivery of the service is concerned. I have a major concern, as does our industry association, on the condition of mooring lines and the probability of injury which we've already seen in Fremantle. But that's totally a different issue, it's more to do with an international issue with the shipping lines themselves. But, no, I personally don't see that there is a major problem in lines - I wouldn't like to see the port get involved in that situation again. We have no direct control over the wharves through the stevedoring industry, so I think we'd probably only complicate and add to the cost, to be quite honest.

**MR HINTON:** For firefighting capacity, this is an issue or an aspect of port authority management I'm sure that is dear to your heart. But there seems to be differing practices as to who funds the capacity for firefighting within port, and it frequently is linked to towage service, that is the tugs themselves often have firefighting capacity. Does the Port of Brisbane have views on the preferred structure or system of provision of firefighting capacity?

**MR SMITH:** As a port we've taken the benefit of the capital equipment that is supplied by Adsteam inasmuch as it has firefighting capabilities. We know that most modern tugs are actually produced with firefighting capabilities. It's not much of a cost burden to actually add that. We do pay for the foam and there was a point up until about four years ago where we were actually paying a set rate per year basically as a subsidy. But in my opinion that was a double-whammy inasmuch as the industry was, through the port charges, having to pay for this capacity on the tugs as well as the foam. I would imagine that in a salvage situation or in a fire situation that the towage company is going to benefit anyway inasmuch as they can recover costs from the damaged party. So I really can't see why, in Brisbane's case, we should subsidise firefighting capabilities apart from paying for the foam and probably paying the cost of any exercises involving firefighting drills.

**MR HINTON:** When you're called out.

**MR SMITH:** Yes. Sydney - I don't really appreciate the exact circumstances of why they have their own firefighting tug but I've got total faith in the port that they do it for a reason, but I couldn't see that same situation applying in Brisbane where we just have a firefighting capability in a tug. It would have to be a multipurpose type of situation where you use it for towage services as well, and that may well be the fact in Sydney, I'm not too sure.

**MR HINTON:** Thank you very much for that. Thank you again for your attendance today. Is there anything you feel I haven't pursued that I should have pursued that you'd like to raise?

**MR SMITH:** No, you've pursued more than I thought you were going to. But thank you very much for the opportunity to present on behalf of the port and, as I say, the jury has by no means made its verdict in our case as far as the port is concerned, we're still debating it. But we definitely appreciate the opportunity of having an input.

**MR HINTON:** Thank you very much.

**MR SMITH:** Thank you.

**MR HINTON:** What we'll do now is take a five-minute break. You can get another cup of coffee or tea and we'll have the second session shortly thereafter. Thanks very much.

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**MR HINTON:** Good afternoon again. This is the second session for the public hearing. I'm pleased to say I don't have to go through my introductory remarks again. We now have Mr Greg Beashel, general manager operations of Queensland Sugar Ltd. Thank you for your attendance today and also thank you for your submission. We appreciate wide representation at these hearings and so we thank QSL for their attendance and their involvement. I would be grateful if for the purpose of the transcript you, as for others, indicate your name and the capacity in which you're attending this hearing and I also invite you to make an introductory statement, if you so wish, to facilitate the exchange of information. Over to you.

**MR BEASHEL:** Thank you. My name is Greg Beashel, I'm the general manager of operations for Queensland Sugar Ltd. The structure of the presentation I'm going to give is a quick company background and why we're interested in towage and then I will give some comment on the Productivity Commission position paper. A bit of quick background for you is Queensland Sugar Ltd is a public company limited by guarantee. It was formed in July 2000. We have the single desk power over all raw sugar produced in Queensland, so the single desk marketing power. We're primarily interested in towage because we see ourselves as the exporters at the end of the chain who pay for it all.

Our shipowners who we contract - we sell all our product on a C and F or CIF basis, pay the towage company directly. But ultimately that money comes out of our pockets. So we would like to see the lowest cost, the most efficient and effective operation in place at our ports that's possible. We ship approximately 4 million tonnes per year of raw sugar from Queensland. We use about 150 ships a year. We're mainly interested in the ports north of Brisbane - Bundaberg, Mackay, Townsville, Lucinda, Mourilyan and Cairns. We do have a terminal here in Brisbane where we ship about two ships a year from.

As I said at the opening, we sell all our raw sugar on a C and F or CIF basis. Contractual arrangements with our shipowners allow us the option generally to ship from the six ports from Brisbane north. So we like to have the flexibility in case there's a crop problem or a particular quality problem in one area to switch a ship to another port and that's one of the benefits we get from being a single desk operator. We pay a premium at the more expensive ports, most common Mourilyan and Lucinda. The major reason for that premium is that towage services are significantly more expensive at those ports. We see that any changes in towage prices on a port-by-port basis would flow through to us through a change in what we call a port equalisation scheme where we pay shipowners a premium to go to the more expensive ports. So if the towage prices went down we would adjust our contractual arrangements with our shipowners to reflect that. Basically what we're trying to achieve is to make a shipowner neutral as to which port we opt for them to go to with their ship. If we didn't have such a scheme our view would be that a shipowner

would merely cost in the highest cost port and we would be paying unnecessary money.

Specifically, now getting on to our comment on the Productivity Commission position paper, I'll start out by saying that we don't see ourselves as experts in running tugboats or the towage industry. We are a member of the National Bulk Commodities Group and we supported their initial submission to the review, although we didn't write it. We're particularly concerned about towage prices at Lucinda, Mourilyan and Cairns. Our concern stems from the fact that these prices haven't been tested in the marketplace. We see that therefore we have no practical way of assuring ourselves that our shipowners and ultimately us are paying market rates for those services. We find this problem particularly unsatisfactory in the current low price environment of the world sugar market.

I think it's pretty well agreed amongst everyone that it's not commercially sensible for more than one towage service to operate from any of our regional ports. There's different views on Brisbane and we don't feel we're qualified to give a view either way on that. But it seems to me at least that there's almost universal acceptance that it's not commercially sensible to have any more than one operator in any of our six other ports. Our basic problem with that is that up until now the rates haven't been tested in the marketplace, so we have no form of assurance that we're paying a market rate for the services that we get.

Getting down to the specifics of the recommendations in the report, I won't comment on all of them, only the ones that we feel particularly affect us and are constructive in addressing our concerns. 8.6 and 8.7 are the two findings that we particularly support. We support our port authorities holding competitive tenders for an exclusive licence that all the ports we ship from and we see that as a very practical way of addressing the concerns that we have. Thanks for the opportunity to come along today and say our piece.

**MR HINTON:** Thank you for those comments. What I'd like to explore first with you is the nature of those six non-Brisbane ports. Are they single-user ports? Some of them probably are, I suspect, and some are where you are the dominant user, I suspect. But I'd be grateful as a sort of setting background for some other questions I'd like to explore with you, is your comments on the differing nature of those ports that you clearly have an interest in.

**MR BEASHEL:** Okay. As I said at the outset, there's two ships a year in Brisbane, so we're by far a minority user of that port. We're the majority user of the Bundaberg port. The sugar crop is very variable in that region. In a good year we might ship approximately 600,000 tonnes per year. In Bundaberg they've recently lost the fuel tankers in the port, so at the moment we're basically the exclusive user of that port, as

I understand it. Moving north from Bundaberg, Mackay, again the sugar crop is very variable in that region. We're not the exclusive user of the port but we're one of the major users of the port. Townsville is a similar situation to Mackay; we're not the exclusive user of the port but we're a major user. At Lucinda, we are the exclusive user of that port. Mourilyan is a similar situation to Bundaberg; the odd vessel doing other business may come in from time to time but it's mainly us there. Cairns has cruise boats coming in, some navy ships, but I would say we were probably the majority user of that port as well.

**MR HINTON:** Thanks for that. There are some signs that those points where there is a single user that there's capacity for some sort of countervailing power of the user to negotiate with the harbour towage service provider, that is as opposed to a multi-user port, the diverse spread of the interests of the user usually means that the countervailing power is spread and therefore not powerful, not significant. Have you found that those ports where you're a single user that there is a capacity for QSL to in fact deal directly with the service provider in a manner that's of equal strength?

**MR BEASHEL:** We haven't done it to date. We would prefer to stick to our core business of exporting sugar and have the port authorities looking after the towage services for the port, even the ones where we are an exclusive operator. In theory, yes, we could probably do it if we really became dissatisfied with the way things were going.

**MR HINTON:** Is there a factor here at work where it's the shipping agent that deals with the towage service, not the actual shipper? Is that the factor that erodes the countervailing power?

**MR BEASHEL:** We advertise our business on the world shipping market and we have different shipowners coming down all the time. We instruct them which port to go to and, you know, there's advertised set towage prices at those ports. Whilst they're not happy with some of them they see that there's no choice but to pay the rate if they want to get their ship in and load it.

**MR HINTON:** Let's come back a step then. In your dealing with the shipping lines, as a major exporter in this area what sort of feedback do you get with regard to the quality and pricing of harbour towage in terms of today relative to, say, 10 years ago or whatever, if there has been a change? What sort of environment do you feel that QSL is operating in with regard to this service?

**MR BEASHEL:** We get particular comments about Mourilyan and Lucinda. Our shipowners, I think it's fair to say, generally have the view that the service is far too highly priced in those ports. Regarding the quality of the service, in my couple of years in the job I can't recall a negative comment about that. The quality of the

service in my experience is excellent.

**MR HINTON:** The spread across the ports that would apply universally. The quality is there with varying degrees of cost satisfaction and dissatisfaction across the ports.

**MR BEASHEL:** Yes. Well, as I said, Lucinda and Mourilyan are the main ports where we get specific comment.

**MR HINTON:** You talked about two ports where the pricing hasn't been tested. Some would argue though that the threat of entry in itself is testing the market, that if the service provider seeks to take advantage of a monopolistic, single-service provider, local monopolistic situation then the threat of entry will be a constraining force. Do you think that has force with regard to those ports more generally and the two in particular?

**MR BEASHEL:** I can only give my view on this but my view would be that the threat of entry hasn't been particularly strong. So therefore the pressure to provide market rates has to be questioned.

**MR HINTON:** Then let's widen it to the relationship between QSL and the port authorities themselves in circumstances where in some cases with those ports it's the port authority that has been dealing with the towage service provider. What sort of relationship exists between QSL and those port authorities regarding the operation of the port more generally but in specific regard to harbour towage?

**MR BEASHEL:** There's always issues with port authorities. Generally we're very happy with all the port authorities we deal with. Specifically we're disappointed that some of the ports haven't had competitive tendering for towage services. That would be our major area of where we had a problem. We have a good working relationship. We have a lot of dialogue. Problems are discussed openly. We agree a way forward. Quite often - towage is an example - we make the same recommendations to, say, the Queensland Department of Transport on what we would like done about it.

**MR HINTON:** This may be an unfair question. It won't stop me asking it but feel free to not react. Do you have a view as to the parameters of an exclusive licence as a proponent of an exclusive licence, having the potential to provide cost benefits and certainly test the market? There's been, on the other hand, concern that a licence of any length of time could in fact deny that port new technology benefits that might flow in the period of that licence. Do you have views about the sorts of characteristics of a licence that might apply?

**MR BEASHEL:** The licence would have to be quite specific about operational

matters. We would need to be convinced that we were going to get the same level of service that we are getting now. Other factors in the licence - it's quite clear there's a significant entry cost. So the period of time for the licence would have to be long enough for a potential new entrant to reasonably recover their initial entry cost. Salvage is an issue, I understand, but one that I don't feel particularly qualified to comment on. Perhaps organisations such as AMSA could give a recommendation as to which ports required salvage capability and what sort of capability would be required. There would be some issues regarding the hand-over from one operator to the other that would have to be dealt with in a way that didn't affect our customers.

**MR HINTON:** Continuity of service, if there is a change of provider.

**MR BEASHEL:** Yes. Off the top of my head they're the main things I can think of.

**MR HINTON:** An issue that's certainly been drawn to our attention by a number - and there's no question that ports differ dramatically across Australia, that's stating the obvious. But there has also been another difference that's been drawn to our attention and that's of course the users of ports differ. You are clearly involved in a sector that's bulk shipping line activity. Do you in your experience in dealing with the industry see any different treatment regarding harbour towage service, costing or relationship with harbour towage or whatever in terms of bulk vessels versus container vessels, or in the case of Cairns where there are tourist boats as well, there are different users in the port. Is there any, in your experience, a differing treatment or a different approach that should be drawn to our attention?

**MR BEASHEL:** I guess the container services operate from the bigger ports, or at least they tend to. Whereas we predominantly operate from the lower-volume ports, so we pay a lot more than they do for towage services. I'm not aware that, you know, there's any discrimination against the bulk sector.

**MR HINTON:** I hasten to add that my question of that type in no way implies that I think there is. It's sometimes useful to test the absence of a negative as well in these sorts of hearings.

**MR BEASHEL:** I'm not aware that there is but that doesn't mean there isn't.

**MR HINTON:** Thank you for that. I have explored the matters that I wish to raise. Is there anything you think I've left out that you would like to raise again that might not have been covered post your introductory statement this afternoon?

**MR BEASHEL:** No, I think it's been a fairly comprehensive review of our submission and I thank you again for the opportunity to come along and make it.

**MR HINTON:** Delighted that you're here and thank you for your attendance. As foreshadowed at the start of the hearing this morning, I now would like to raise the point that there is option for anyone attending here this afternoon.

**MR MORAN:** My name is Neil Moran and I'd like to comment just upon a couple of matters that have been raised here this afternoon and particularly on a couple of the matters that were raised by Greg Smith earlier on. Greg was asked by you, Mr Commissioner, as to his views on Port of Brisbane Corporation intervention in linesmen and, at least as I recall his comment, he said he hadn't given the matter much thought but that his reaction was that he saw no need in Brisbane and that on the other side of the coin he saw some disadvantage in that there would be cost of involvement there and he felt no justification in doing so.

However, to some extent that has some implications with the submission which I have made to you as well. I can understand Greg's reticence in not wanting to get involved in Brisbane because it seems to me that, as he has correctly observed, there is no need for involvement by him in Brisbane. There is only one independent linesman operator and that's Randall's in Brisbane, and from the little that I know of them they appear to be running an efficient and cost-effective service. The only other linesmen are provided by the stevedores in Brisbane. There are none provided by the port directly. In that circumstance there is, at least appears to be, a level of competition and the services appear to be delivered quite reasonably.

However, if that linesmen service were provided by Adsteam, for instance, which is also obviously the tug provider, there may then become a connection between the two and Adsteam may have some market persuasion to particular shippers to engage their linesmen, if they were being provided. That in turn then would lead to a price connection between the two, which is precisely the problem that I've addressed in my submission - the price connection between tugs and lines boats, lines launches, because I'm a lines launch provider, not a linesman provider.

It seems to me that if that were the case, if Adsteam were to engage in providing linesmen and were to use the tug rebate which they are offering to principals as an incentive to engage their particular lines people, they could get to a situation of dominating the linesman service and, once they succeed in eliminating any competition, they are then free to charge whatever they like, on the basis that Greg has said he would prefer not to be involved in any licensing arrangement of linesmen, so that if there is no licensing arrangement, then the provider of that service is free to charge whatever they wish.



That's a similar concern to what I had so far as the lines launches are concerned. If the licensing arrangement extends only to tugs and not to associated services or related services, then the operator is free to charge whatever they wish. Historically in Brisbane lines launch prices have been quite reasonable and, even though I've been involved in the business in Gladstone for seven and a half years, we never had the slightest incentive to open a business in Brisbane whilst it was being run by the Howard Smith-Adsteam joint venture, because the prices were reasonable. We had a reasonable market share in Gladstone and everything in the garden was rosy.

But from the moment that Adsteam purchased our opposition in Gladstone I immediately perceived a very real threat to my business, and it was on the basis of that threat that we chose to open in Brisbane, to provide a service in Brisbane. Even though there had not been excessive pricing of lines launches in Brisbane during the Howard Smith-Adsteam joint venture period, there might perhaps be a risk of increasing prices had Adsteam had the port to itself in Brisbane up to the present time, because us having opened in Brisbane 18 months ago has provided real competition in Brisbane for lines launches.

That's not to say, though, that we still will suffer and we are in fact suffering significant disadvantage in our marketing because of the Adsteam situation. Consequently, even though Greg has indicated a reticence to get involved in the licensing of linesmen, if the related services of linesmen, lines launches et cetera were to fall in the hands of just one only strong or market dominant tug operator, be it Adsteam or anyone else, and unless those related services are licensed, the scope exists for those prices to be increased and therefore the cost of turning round the ship to be increased. But if the cost of turnaround is to be constrained, then it might become necessary perhaps for the port authority to address the need to involve itself in the licensing of other related services as well as the provisions of tugs.

**MR HINTON:** Mr Moran, thank you for those comments. My question is: have you experienced any regulatory constraint in your company or any other company providing linesman services?

**MR MORAN:** No, no regulatory constraint. Our decision to not provide linesman services in Brisbane has been purely a commercial one. We think that the existing providers appear to be providing a reasonable service, as Greg has indicated - I agree with his assessment there - and that in the absence of there being an opportunity for fair commercial return, it's an onerous task for an operator new to town, as we were 18 months ago, to find an adequate gang of competent people to perform the service reliably and to thereby be assured of a commercial return. Because those assurances weren't there to me as an outsider, I had no interest in pursuing it, purely from a commercial point of view. To my knowledge there was no

regulatory basis for not pursuing it.

**MR HINTON:** If there's no regulatory impediment, do you perceive any commercial impediment or barrier to entry? You just quickly then alluded to obtaining skilled staff. I'm sure there is a skill associated with linesman activity, but presumably training is not an excessive impediment to setting up competition within this sort of activity.

**MR MORAN:** I agree, in fact quite the opposite. There is a skill, there's no question about that, but it's a very, very basic skill, and once proper instruction is given, there's no reason why it can't be done by almost anybody. That being the case, because it is an area of work that's available to almost anybody, I think it's difficult then to be assured of the reliability of the employees, and what's far more important than the qualifications and experience is the fact of having casuals on an irregular basis who are reliable.

**MR HINTON:** What I had in mind was that, if a particular service provider was seeking to charge excessive prices, prima facie there would seem to be limited impediment to competition moving in to at least take on that incumbent in circumstances where excessive pricing was occurring.

**MR MORAN:** That would be the case if you were competing in just that industry alone, and I again would reiterate the relevance of the service being provided by a large operator such as Adsteam or anybody else like them, where they are able to use their market power to direct their clients to engage them in that other associated area of work. If it was just the linesmen only, then it is very readily open to competition.

**MR HINTON:** Sure. In circumstances where you do have this price connection, I think was your expression, isn't there also some sort of price signal or pressure on the user of the service to seek the least cost option, and if there's transparency in the linesmen cost as part of a total package, then unbundling surely would be an option for the user of the port service.

**MR MORAN:** That would be the case, but the rebate which is being paid is purely a private contractual arrangement, and consequently the terms of that contract aren't known to me, and I assume not to anybody else other than the parties to it. Therefore I don't know whether there is a capability on the part of the granter of the rebate - and I assume that there is - for that rebate to be withdrawn at any time. Because of the existence of that threat of withdrawing the rebate, that tends to detract from the transparency of the pricing of other related services.

**MR HINTON:** So it's this impediment to unbundling you see as the problem?

**MR MORAN:** Precisely.

**MR HINTON:** Has your experience in this sector suggested this is a potential, or is it an actual circumstance that might be - - -

**MR MORAN:** Certainly so far as my businesses are concerned, it's actual.

**MR HINTON:** Is this Gladstone-Brisbane specific? Do you - - -

**MR MORAN:** I'm only operating in those two ports, so they're the only two that I can comment upon. In Gladstone's instance we have in fact lost very substantial market share very, very recently through precisely this mechanism, and in Brisbane, having been established here for only 18 months, we had already very, very recently - only a matter of 10 days ago, the start of this month - lost one of our clients in Brisbane for precisely that reason.

**MR HINTON:** This may be perhaps an unfair question, but do you have a feel for the sort of pricing efficiency performance of linesmen in Gladstone and Brisbane relative to other ports around Australia?

**MR MORAN:** No, I don't. Suffice to say that my examination of the provision of linesmen in Brisbane indicated no scope there for us. I wasn't interested and I'm still not interested. It's not my area of expertise, although there is no real requirement for expertise, as I say, but it's an area where I would be confident that I could engage people to do the task if I thought there was a commercial opening but I haven't perceived a commercial opening as yet, aside from Randalls in Brisbane who appear to be providing an adequate service anyway. As I said before the only other two providers are the stevedores in Brisbane and certainly in the case of at least one of those, their employees, who undertake the taking of the lines, are taken out of a gang who are already on the wharf in any case. So the stevedores are in fact billing out an invoice for an additional income for them for workers for whom they were already paying in any case. So they could afford to be very, very price competitive and again that precludes any real likelihood of a commercial return in going into that field in Brisbane.

**MR HINTON:** Your comments and views took you down a track of the port authority then proceeding to pursue the option of exclusive licensing for this service more generally.

**MR MORAN:** That certainly would serve my purpose quite well. If me, as a lines launch provider could be assured of my work, competing on a level playing field, I'd be absolutely confident of my ability to perform. What's constricting my business at the present time is that I have to compete with a tug rebate where the amount of the

rebate is more than the entire lines launch price.

**MR HINTON:** Would you perceive a risk that in fact the successful tenderer might in fact be the service provider who is bundling it all up in any case?

**MR MORAN:** That's a risk but if the port authority recognises that they are talking about the least turnaround cost to the shipper then the port authority may have an incentive in keeping those licences separated.

**MR HINTON:** Thank you very much, and thank you also for your submission.

**MR MORAN:** Thank you.

**MR HINTON:** Is there anyone else who would wish to take the floor? Thank you for your attendance today and we'll see some of you in Sydney tomorrow perhaps and we'll be in Melbourne on Monday. Thank you very much. We now conclude today's proceedings.

AT 1.48 PM THE INQUIRY WAS ADJOURNED UNTIL  
THURSDAY, 11 JULY

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