

29 May 2000

PSA Inquiry
Productivity Commission
LB2 Collins Street East PO
Melbourne Vic 8003

Dear Sirs

Re: Legislation Review of Prices Surveillance Act 1983

Dale Cole & Associates Pty Ltd (DCAPL) became aware of the Productivity Commission's Legislation Review of Prices Surveillance Act 1983 on 26 May 2000. DCAPL apologises for the lateness of this submission and emphasises that its interest in the Review concerns Harbour Towing only – a declared activity at a number of nominated Australian ports.

DCAPL submits that harbour towing competition in Australia is possible provided Port Authorities and/or State Governments accept the principle of an exclusive license regime. The issuing of exclusive licenses by port authorities will only occur if port owners are given the necessary legislative tools to issue this type of licence for harbour towing services.

The granting of exclusive towing licenses is not a new phenomenon. Historically towing operations in a number of regional ports have been issued on an exclusive basis. Such an arrangement has given the client port authority and its customers competitive pricing as well as service parameters, which meet the objectives of all stakeholders. In addition port growth/decline is recognised with a mechanism provided for any variation to be transparently reviewed.

A watershed event occurred late last year when a major port (Gladstone) called tenders for a seven-year exclusive license. This process attracted a number of highly regarded international towing operators and resulted in an outcome, which lowered towing rates by eighteen point five percent (18.5%) compared to the rates quoted on 1 January 1999. In addition Customers were offered service initiatives which the Gladstone Port Authority accepted as "world's best practice".

Because the Australian towing industry is small by international standards and capital investment relatively large; there are no commercial incentives for overseas and/or local operators to compete at the coalface. It is worth noting:

1. The ratio of tug jobs at Singapore compared to the busiest port in Australia is 12:1.
2. The cost of a new omni directional tug with a bollard pull suitable for a capital city port is in excess of \$A4.5m.

The difficulty for Australian ports is that the volume of towage business generated at even the busiest port cannot sustain "face to face" competition. Even if a port's towage business was shared on a 50:50 basis the returns are not sufficiently attractive to entice a competent operator into a port. The definition of a competent operator is one who values "world's best practice" outcomes in terms of service, OH&S, QA, employment practices and pricing.

To achieve a competitive and commercial outcome, port authorities and towage operators would support an exclusive license regime provided:

1. The committee reviewing the tenders was demonstrably competent to do so; and
2. The life of the Contract is at least ten years, thus giving the successful tenderer an opportunity to amortise set-up costs and allow a reasonable period to depreciate capital investment.

The outcome of a competitive exclusive tender process for all capital city ports has been modelled by DCAPL. Such a process has resulted in significant savings for Customers and at the same time provided Customers with "world's best practice" service and safety criteria. In addition it is possible to include attractive packages that recognise customer volume and port growth.

DCAPL advocates the proposition that harbour towage competition is possible at all Australian ports provided the licensing authority is given the power to introduce an exclusive licensing regime.

The attached paper was written in January 2000 and is relevant to the comments expressed above.

Yours faithfully
For Dale Cole & Associates Pty Ltd

Dale Cole
Managing Director

Harbour towage in Australia accounts for over fifty percent (50%) of a shipowners'/ operators' non-cargo handling port costs. Given a cost liability of this magnitude, stakeholders have an interest in ensuring the invoiced cost of harbour towage is competitive and operators' service levels mirror "world's best in class" standards.

Throughout the last decade of the twentieth century industries in general have undergone significant change. Whether change was induced as a result of competitive pressures or, as a consequence of industry realising that survival is dependent on a supplier meeting the service expectations of their customers, will vary from industry to industry.

The international shipping community is sufficiently sophisticated to differentiate between a "world's best in class" service and a service supplied by a monopolistic provider whose price and service levels reflect their privileged position. Any service other than "world's best in class" will reduce the competitive value of Australia's exports, increase the costs of imports and create a soft under-belly in employment practices.

As Neil Baird suggested in last month's issue of this publication, shipping is one of the most international of industries. Therefore, irrespective of the level of community support for globalisation, the reality for transport industries is global markets are shrinking. Consequently, change is a constant companion for any company that trades internationally. To offset the negative consequences change has on employees; employers must articulate their strategies and develop an inclusive approach, which takes into account an employer's commercial objectives.

As certain as night follows day, the Australian towage market will be reformed. The jury is still out as to whether reformation comes in the form of the exclusive licence mechanism or through an alternative competitive arrangement. However, with the growth in overseas flagged vessels trading on our coast, additional pressure will be exerted to ensure "natural" monopolies have a transparent cost base with pricing policies, responsive to job growth/losses.

An industry undergoing reform must have the support of its Customers. The harbour towage industry is no different. Shipowners/operators, Governments (both Federal and State), Statutory Authorities, Port Authorities and Port Owners must support both the process and the outcome.

For reform of Australia's harbour towage industry to be effective; regulators and new entrants must be cognisant that the market is small with shipowners/operators demanding service levels comparable to "world's best in class". To illustrate the relative size of the Australian towage market, it is worth noting that our busiest port, in terms of tug jobs, has an annual volume equal to that experienced by Singapore in twenty-nine days.

Reform of the towage industry has a cost penalty. Consequently towage operators are reluctant to voluntarily introduce reforms, because of its adverse impact on earnings. Therefore any reduction in tariffs and/or the introduction of "world's best in class" service levels will not be achieved voluntarily. Such improvements have to be teased out and the quickest and most effective mechanism to achieve this goal is through a competitive pricing process.

An illustration of the effectiveness of this process was demonstrated recently when the Gladstone Port Authority's (GPA) called tenders to provide towage services at the

port of Gladstone. The GPA's tender documents were structured in such a way that price and "world's best practise" service levels were an integral part of the tender.

The GPA tender attracted interest from both national and international towage operators. At least six operators were invited by the GPA to submit a tender and, of these, two could match the incumbent's credentials in terms of experience, proven track record and capability.

The port of Gladstone towage license was awarded to the incumbent's Gladstone Tug Services Pty Ltd. The process highlighted the benefits, which will accrue to ship owners/operators, exporters and importers who ship through the port of Gladstone. It is useful to note that the exclusive tender process had the support of the Gladstone shipping community who were consulted by the GPA before the process began and again prior to the announcement of the selected operator.

This process delivered to the port of Gladstone significant reductions in the port's towage tariff. In addition the GPA has satisfied itself that the process did not compromise service levels; resulting in the delivery by the towage operator of "world's best practise" service levels.

The incumbent's winning tender reduced the tariff by twelve point five percent (12.5%) from 1 January 2000. This reduction was on top of six percent (6%) introduced on 1 July 1999.

Comparisons with the unsuccessful tenderers is interesting, as one tenderer submitted a proposal to reduce the tariff by over one fifth and maintain current service levels whilst another proposed significant reductions in the towage tariff coupled with vastly improved operational practises. As a consequence of the GPA's tender process; the benefits to stakeholders are transparent and bear testament to the success of the process.

The GPA's competitive tender process; succeeded in delivering significant change in the tariff whilst maintaining current service levels; even though the previous tariff was regulated by a non exclusive license.

Based on the Gladstone experience significant tariff reductions and improved service levels are possible in most Australian ports if licensing authorities use the competitive tender format to award licences. However competing towage operators have to be confident that the outcome is awarded on merit. Should the local and/or international towage community perceive that licensing authorities have a preconceived notion of who should be supplying towage services, then the quality and quantity of interested operators will significantly decline. Being the first major exclusive tender process in Australia; the GPA's tender attracted a large high quality field.

In future, prospective new entrants, each of whom will devote considerable time and resources preparing their submissions, will have to be assured that the review process is transparent and the license awarded on merit.

The alternative to exclusive licensing is to encourage towage operators to compete in major ports. This alternative, whilst attractive in theory, has no legs because shipping volumes in Australia's busiest ports are minuscule by international standards. Open competition in ports, which have similar towage volumes to those, experienced in Australia's capital ports' produce a common result – competition becomes a casualty of economic survival and investment in new plant; ceases. As a result, these ports operate with published tariffs, which are similar, and have out-dated plant which

encourages the practise of inter-company hiring. In addition survival encourages the “competing” companies to deliver service initiatives which have the least impact on earnings.

Australia had an enviable reputation for its innovative approach to tug design. Its shortcomings have been confined to delivery of service and price. Some ports have addressed their service delivery shortcomings, but Gladstone is the first major port to address price differential. Should the Bunbury tender process proceed, a mirror image result to Gladstone’s is possible.

The Australian shipping community accepts the port of Singapore sets the international benchmarks for efficiency and work practises. Up until two years ago Singapore had only one towage provider. In the last two years it has been progressively issuing licences to approved operators, with the caveat that a maximum of five operators will eventually be licensed to undertake harbour towage services. To put the size of the Australian towage market into perspective, the annual towage business in Singapore, if shared equally amongst five licensed operators, is numerically at least two and half times the size of Australia’s busiest port.

If stakeholders want to see significant improvements in price and service levels, then the exclusive license process is the only process licensing authorities have to attract a competitive bidding process. Ship owners/operators, Governments, importers, and exporters would derive substantial benefits from this process as well as giving licensing authorities the opportunity to set benchmarks for service initiatives and tug design/bollard pull.

The issuing of exclusive licences within the Australian towage landscape is not revolutionary. A number of smaller ports in Australia operated or operate under this regime, and the regime is common enough in the non towage world for the Australian Consumer and Competition Commission (ACCC) to identify it by name - “third line pricing”.

Current towage operators in Australia have difficult choices to make as they stare down the challenge of competition. Incumbency offers both advantages and disadvantages, and neither option can be exploited if operators’ are unfamiliar with the expectations of their customers.

What are the drivers, which will make a new entrant more competitive under an exclusive license process? They are:

1. Return for shareholders. Publicly listed as well as privately owned companies have different expectations on the level of return for every commercial opportunity. The exclusive license process encourages competition when setting this driver and is a significant competitive tool.
2. New tugs. It is interesting to note that the GPA tender did not require competing tug operators to list their emergency response history or to detail how they would deal with such a contingency. Such a view is now commonly supported internationally and has led to the design and development of a new generation of tug, which can best be described as suitable for harbour towage work only. The fact that Australia is faced with an average of one maritime emergency every eighteen months encourages the view that such emergencies should be handled by a supplier who specialises in emergency response. If Government agencies and other licensing authorities share this view, then the capital invested in new tugs will be significantly reduced.

3. Roster arrangements and manning costs. Stakeholders at Australia's capital city ports are looking for rosters, which will deliver "world's best in class" service levels. With crew wages and on-costs accounting for over sixty-five percent (65%) of an operator's operating costs, it is reasonable to assume that competitive pressures will focus on this cost and look for alternatives to the present manning arrangements. The present Tug Boat Industry Award has generic features similar to the Blue Water Industry. In today's towage environment rosters, work practises and leave arrangements no longer have a generic relationship with the Blue Water Industry. Rosters, work practises, remuneration, multi skilling and leave arrangements are all disciplines, which a new entrant will focus on when considering alternative policies.
4. Union representation. Currently Australian towage operators employ a crew of four. In certain circumstances crews of this size are necessary, but in the majority of ports safe manning levels can be set at a maximum of three persons. To achieve a manning level of this magnitude the next generation of harbour tugs will be fitted with labour saving features and work practises changed to accommodate this reality. With a crew of three the question of union representation becomes relevant. Will a separate union represent each crewmember or will the new millennium herald the arrival of new work arrangements, which recognise the representation reality of so few employees?
5. Administration. To reflect the changes at the coal face there has to be change to the way towage operations are administered. The communication revolution has not by-passed towage and, as a consequence, fewer people will be employed, multi skilling will be a necessity and remuneration packages will reflect the reality of a competitive environment.

In conclusion, for harbour towage to remain an Australian icon, it has to reform itself. History has shown that reform will not come from within. Reform will have to be initiated. This paper argues that licensing authorities must use the competitive tools at their disposal and introduce exclusive competitive tendering. The Gladstone tender produced a result which should give encouragement to all stakeholders to pressure individual licensing authorities to follow suit. If this happens, then Australian towage will enter the new millennium in much better shape than it left the twentieth century.