CSR
Shipping

19th April 2002

The Productivity Commission
Harbour Towage Inquiry
LB2 Collins Street East
Melbourne
VIC 8003

Dear Sir

Submission - Harbour Towage and Related Services

CSR Shipping (CSR Limited) represents a number of external customers and joint venture companies that, collectively, ship about 4m tonnes of raw material between Australian ports. These movements occur between the State regulated ports of Gladstone, Mackay, Bundaberg, Devonport and Thevenard and the "declared" ports of Melbourne, Port Jackson, Newcastle and Brisbane. The main cargoes moved under these arrangements are raw sugar, gypsum, cement and alumina. Other spot cargoes are carried from time to time.

The ships, chartered and owned, range in size from 70,000 dwt to 16,000 dwt and all use linesmen to moor and unmoor. One ship is fitted with a manoevering system that enables it to operate independently of tugs whilst the remainder employ them.

Relative cost of tug and mooring services

Tug costs average about 0.8% of the handling cost (sea freight + stevedoring) of the above bulk materials. The cost of mooring services averages about 0.6% of the handling costs (sea freight + stevedoring)

At these relatively low percentages the demand for services is unresponsive to price increases. This and a dominant supplier clearly provide the opportunity to exercise market power.

The tug market

Since the "declaration" of harbour towage in the main ports in 1991 considerable rationalisation has taken place. Market power is now concentrated. Manning reductions have occurred and structural change has taken place but prices have only moved up. Similar changes in the shipping industry, over the same period have led to

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lower costs for ship operators and lower prices in the market. Stevedoring too has experienced structural change which is favourably reflected, at least in bulk trades, in costs and prices. Efficiency gains are clearly being shared with the customers.

In the tug market we cannot see any sign of efficiency gains reflected in prices in the market. In the case of Adsteam we have only had price increases, since 1990. Prices are promulgated and no opportunity is given for negotiation or explanation.

Some operational flexibility has been gained in a few ports but the impact, whilst useful is only marginal.

Mooring costs

Charges or prices for these services appear to have followed the same trend as tugs.

We do not have and cannot get an understanding of the costing of these services. In particular we cannot say whether they are shared across the range of services offered by the larger providers in the port industry. We believe that there are opportunities to do this.

The high costs and inflexibility of mooring services in many ports seems to result from the dominance of waterside unions though not exclusively. We believe some of the problem is attributable to the over regulation of the industry and the historical tendency of port authorities to involve themselves to ensure the supply of a "package" of ports services such as mooring and tugs.

In Melbourne deregulation of the mooring market led to greater choice in the providers of this service, efficiency gains, flexibility and ultimately lower prices. In other ports, where prices are high and labour inflexible, one would expect to see new entrants in this simple (negligible capital required) business. That we don't, suggests that the labour controls the industry.

Variations in Demand

In liner trades, ship size has increased and port visits reduced . This means, all other things being equal, a reduction in demand for port services. In the case of tugs this partially offset by an increase in the number of tugs used by each ship. This change should be clearly discernible to the tug operators who should price their services to liner operators accordingly.

In the case of our bulk trades we have supplied a steady volume of ship movements in and out of our ports for at least twenty years. We have limited opportunities for economy of scale from larger ships and so the volume of business we present for tug companies remains steady.

Not only are we not seeing any price reductions stemming from industry efficiency gains but there seems to be a fairly unsophisticated pricing mechanism in place.

Countervailing power

Unfortunately, in the case of tug services, shipowners cannot exercise countervailing power let alone negotiate prices. There are few providers. The only countervailing power we have in this context is to build into a ship, when new, the equipment to enable the ship to berth unaided.

Mooring services are coming under threat from automatic mooring systems which can be retrofitted to ships or installed on wharves. The economics of these systems though generally limit them to smaller ships with a high frequency of port visits.

Summary

Harbour towage and related charges should remain "declared" under The Prices Surveillance Act 1983.

The tug industry should be required to show evidence of the passing on to customers of productivity and efficiency gains.

The market power of suppliers in the industry should be reviewed by the ACCC. At least one supplier is prepared to exercise its market power as evidenced by its refusal to accept the scrutiny and decision of the ACCC.

Mooring services should be deregulated and terminal operators encouraged to provide their own labour for this work.

We look forward to the opportunity to present further evidence during the hearings in June.

Yours sincerely

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CSR Shipping

On behalf of :

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Australian Cement Holdings
Gypsum Resources Australia
Tomago Aluminium
VAW Pty Ltd