

17 April 2001

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

Dear Sirs

Review of Prices Surveillance Act 1983 – Release of Draft Report

Dale Cole & Associates have received the draft Prices Surveillance Act 1983 report and wishes to register the following comments.

This response is concerned with harbour towage only and the comments represent the views of the author - Dale Cole.

For Australia to have an internationally competitive harbour towage sector there must be sustainable:

- Pricing levels
- Cost structures
- Plant acquisitions

Because the harbour towage market in major Australian ports is so small, contestable entry is commercially difficult to sustain. Consequently other competitive strategies have to be considered to prevent this sector becoming a non-performing monopoly. Unfortunately declaration does not encourage innovation; it supports the status quo.

Harbour towage in Australian ports' will only become competitive when there is a significant incentive to do so. If contestability is not a practical option then the exclusive licence mechanism remains the only instrument, which will deliver genuine change to the Australian waterfront. This process will:

1. Provide a tariff structure based on competitive cost structures and return on funds employed.
2. Ensure competing operators use the most suitable plant for the required tasks.
3. Allow competing operators to develop rosters, which encourage 'safe practice' regimes and support remuneration arrangements, based on either award or community standard benchmarks.

Unfortunately the last three-harbour towage exclusive licence tenders viz Gladstone, Bunbury and Fremantle have had controversial outcomes. The market suggests that the Gladstone and Fremantle licences were not issued to the most competitive tenderer and the outcome of the Bunbury licence was resolved in the Federal Court.

If the process for selecting the successful tenderer is not transparent, then unsuccessful operators can be excused for thinking the process is not related to competitive outcomes. As a result, towage operators with international credentials will assume that the tender process in Australia is primarily designed to allow Port Authorities to apply countervailing pressure on the incumbent to reduce its tariff(s). The danger for stakeholders if this thinking becomes widespread will be the loss of interest by genuine towage operators in any future Requests for Proposals.

Such an outcome will ensure the status quo is maintained thus increasing the cost of Australia's imports and exports as well as discouraging the march toward innovation and best practice principles.

Harbour towage in Australia is in need of reform. If those who monitor "national interest" outcomes along with approximately eighty percent of the port's customers accept that the arrangements offered by the national towage operator reflect "world's best practice", then reformation is still a long way off.

Dale Cole & Associates suggests the validity of this statement can be measured against the proposals submitted in each of the three-towage licence tenders. The difficulty for the majority of stakeholders is in understanding the processes, which determine the outcome. The market is aware that more favourable and competitive proposals were submitted, but these proposals were rejected for reasons, which do not appear to be related to competitive outcomes.

Yours faithfully
For Dale Cole & Associates Pty Ltd

A handwritten signature in black ink, appearing to read "Dale Cole". The signature is written in a cursive, flowing style.

Dale Cole
Managing Director