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Submission to:

PRODUCTIVITY COMMISSION

**Impact of Competition Policy Reforms on
Rural and Regional Australia**

Prepared by: REEF PILOTS ASSOCIATION INC.

GREAT BARRIER REEF MARINE PILOTAGE.

Historical Background.

Prior to July 1993 the Queensland Marine Board, a government instrumentality which had shipowners on its board, but not pilots regulated the pilotage. They regulated the number of pilots, ensured their competency and set the fees.

The pilots were basically one man companies acting as a co-operative. On joining they bought their share of the assets; boats, helicopters etc and sold them on retiring. One firm of agents was licensed by the government to provide office infrastructure. Pilotage was non compulsory until 1991. Approximately 90% of ships took a pilot voluntarily. In 1991 the Federal Government made pilotage compulsory

On July 1, 1993 the pilots came under Federal jurisdiction and the Australian Maritime Safety Authority (AMSA) became the regulating body.

With no previous knowledge of anything similar, and with the importance of the Reef to Australia's trade links not to mention its extreme environmental sensitivity, one would have thought that they would they would have a full technical audit to ensure that all was well with their new charge. An audit would include submissions by Pilots: Dept. of Transport Accident Investigation Unit; Ships Masters who traverse the Reef; Insurance and P&I Clubs.

A further audit should have been carried on the fee structure and compared it to other pilotage charges in Australia and overseas. Submissions should have been called for from both pilots and users.

Instead on day one, AMSA announced that they wanted nothing to do with the commercial aspect and that fees would be deregulated. Pilot numbers were also deregulated. Entrance and training standards were lowered.

Of the original 44 pilots 39 joined the Pilots Association while 5 joined the former licensed agent and formed another pilot service which began recruiting vigorously. Subsequently three pilots left that service and set up on their own.

Is Pilotage a Natural Monopoly?

Reef Pilotage involves a lot expensive infrastructure to get a small number of highly trained personnel to very remote locations with absolute reliability and often under adverse conditions. In this respect we are similar to fire and ambulance services which are generally accepted as being natural monopolies.

Competitive pilotage exists in the North Sea, but this is not compulsory; has a much bigger market to sustain it; and with many countries providing pilotage nationalistic politics (and perhaps hidden subsidies) skew the results.

2.

Some of the states in the U.S have tried competitive pilotage:

Alaska is one of only a few states that has abandoned the traditional association run pilotage system in favour of a competitive model. Two other states, Hawaii and Florida have experimented in recent years with competitive pilotage systems. Both have failed after experiencing many of the same problems as Alaska. In Hawaii, the state has taken over pilotage and the Florida legislature recently passed legislation specifically abolishing competition between pilot organisations.

1994 Alaska. This paper on the status of the states marine pilotage system is intended as a briefing document for the incoming administration. Brad Pierce, Senior Policy Analyst. Office of Management and Budget.

- 1. Piloting is an essential service of such paramount importance that its continued existence must be secured by the state and may not be left open to market forces.*
- 2. Because safety is the primary objective in the regulation of piloting by the state and because... pilots are supplying services that are considered to be essential to the public welfare, it is determined that economic regulation, rather than competition in the marketplace, will better serve to protect the public health, safety and welfare.*
- 3. The rate setting process, the issuance of licences only in numbers deemed necessary or prudent by the board, and other aspects of the economic regulation of piloting established in this chapter are intended to protect the public from the adverse effects of unrestricted competition which would result from an unlimited number of licensed being allowed to market their services on the basis of lower prices rather than safety concerns. This system of regulation benefits and protects the public interest by maximising safety, avoiding uneconomic duplication of capital expenses and facilities, and enhancing state regulatory oversight.*

Chapter 310 of the Florida Statutes.

What is Gained by Introducing Competition?

Competition is often introduced to increase productivity; get people to work longer; to be more available for work; to cut back on penalty rates. Let us see how the Pilots stack up.

Productivity.

The longest single handed pilotage in the world. In the approx. 36 hours in the Inner Route Compulsory Area the pilot will only get 3 to 4 breaks off the bridge of between 1 to 3 hours. I have been told by Japanese and N. European Masters "In my country there would be 2 pilots for this length of pilotage." i.e Productivity 100% better than Germany or Japan.

3.

Working Longer.

In 1993 the Prices Surveillance Authority found that the pilots averaged over 7 hours a day for 365 days a year. In this context Qld. Uni. Technology have been investigating us for two years on a Fatigue and Stress study.

Availability.

The average person ashore gets 52 week-ends off a year. ie nearly 15 weeks. Add another 10 days for public holidays, three weeks annual leave and a few "sickies" and you have 20 weeks of non availability for work. The pilots are unavailable for 10 weeks annual leave. The rest of the time when they are at home they are on Stand Bye and have bags packed ready for immediate departure. As an example of what this can mean the following is from my Log.

July 09. 0100. Arrive home.

11. Advised. Probably joining "Kongsgas" Brisbane on the 13th.
12. "Kongsgas" cancels. Diverted to Newcastle.
15. 1330. Advised might have to sail 1800 to-day from Brisbane.
1600. Advised . Not needed for "Ganta Bhum"
16. Advised. Probably joining "Zeebrugge" Brisbane 18th.
17. Zeebrugge delayed. Probably joining "Luo He" Cairns 20th.
19. Fly to Cairns.
20. Orders changed. Drive to Mourilyan and join "Marine Confidence"

Penalty Rates.

None. Xmas Day paid at same rate as any other day.

Living Conditions.

No pilot has refused to sail a ship because of living/sanitary/eating conditions that would be rejected by any union member. A week on a "Ship of Shame" can be a long time.

From the above it would be hard to say that the pilots could work longer/harder/more productively. The Government had the ability to set the fees. Why did they have to introduce competition?

RESULTS OF COMPETITION IN THE GREAT BARRIER REEF.

By flooding a static market with pilots AMSA have ensured a price war. When the product you are trying to sell is safety and reliability they can be compromised by a price war.

I have taken a 94,000 tonne maximum draft tanker from Torres Strait to Brisbane for a charge to the ship of \$3,500 for 5.5 days pilotage. This is a rate of \$27/hr. Under the old scale it would have been charged \$9,700 or \$74/hr.

For comparison I enclose a cutting from the Daily Commercial News showing the price of

4.

harbour pilotage in Australia and overseas. The ports in question have a pilotage time of between 1 and 5 hours which makes their rate \$thousands/hr.

Both pilot services in Torres Strait operate the oldest and worst pilot boats in Australia. With the present revenue it is very hard to replace boats/helicopters/pilot houses etc

Both major pilot services have to provide their own boats/helicopters/communications and offices for 24 to 30 pilots each. This doubling up is highly cost inefficient

By having two small pools of pilots covering a large geographical area the despatching has become very inefficient. If one firm gets a rush of orders one week every pilot gets called out. By the time they get to the other end things have slowed down so they have the option of flying themselves home or else staying put at the end of a long queue. On occasion our pilots flying South to correct an imbalance have met the other pilots flying North doing likewise.

Pilots are only paid when they pilot. When away from home they want to work hard and then return home. It is highly demoralising to sit around in outports for days at a time.

If one firm should go under the other would be free to charge what it wanted.

With the big drop in income (See attached Confidential Enclosure) it is going to be hard to attract the right calibre of new entrant. Already people who were on our list have taken better jobs elsewhere. Most existing pilots are of an age where it is hard for them to move otherwise they would have done so.

Should oil get spilt on the Reef there will be environmental pressure to send ships outside the Reef. This would add significantly to the cost of our Imports/Exports.

With the price war all price loadings have been abolished. This means a 2,000 slot container ship pays the same as a 400 slot one.

Both firms have to spend a lot of time and money on marketing.

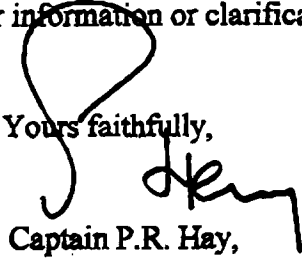
In Conclusion.

Competition is good, but only when it is cost effective and sustainable. Neither applies to this case. For over a hundred years one pilot service worked very well and the customer had a free choice. He could take us or leave us. 90% took us. Then the Government made pilotage compulsory which made us a monopoly and then told us they do not like monopolies. Catch 22.

We have raised many of the points in this submission to House of Reps., Standing Committee on Communications, Transport and Microeconomic Reform which reported on the AMSA Annual Report 1996-97. I enclose a copy of the relevant page of the Report.

Should you require any further information or clarification I will be only to happy to oblige.

Yours faithfully,


 Captain P.R. Hay,
 Spokesman.
 Reef Pilots Association.

WHEAT EXPORT: 24,000 tonnes, 24,500 GRT, 180m length, 30m width, 11.6m depth; 69 hours

PRICING COMPARISON AS															
	Clydeport	Klang	Richards Bay	Tauranga	Vancouver	Albany	Bunbury	Fremanle (private)	Adelaide	Burnie	Geelong	Portland	Kembla	Gladstone	Ton
Ship	\$63,266	\$620	\$4,912	\$9,185	\$5,881	\$14,179	\$20,310	\$10,143	\$13,028	\$886	\$3,725	\$31,575	\$9,065	\$6,599	\$
Mooring	\$2,440	\$114	\$654	\$	\$3,481	\$1,600	\$1,724	\$1,990	\$	\$969	\$1,900	\$1,412	\$2,860	\$1,032	\$
Towage	\$28,547	\$1,025	\$5,734	\$5,150	\$6,271	\$6,700	\$11,410	\$10,852	\$13,240	\$5,989	\$10,535	\$10,416	\$9,416	\$10,528	\$
Pilotage	\$2,358	\$215	\$1,035	\$	\$7,586	\$2,852	\$2,852	\$4,141	\$2,350	\$1,278	\$5,539	\$1,870	\$1,992	\$1,983	\$
Water/services	\$344	\$129	\$1,328	\$1,307	\$1,470	\$521	\$436	\$249	\$517	\$476	\$1,148	\$843	\$210	\$291	\$
Shipper	\$243,996	\$24,240	\$103,249	\$68,880	\$3,215	\$27,600	\$24,300	\$3,599	\$36,000	\$39,600	\$33,047	\$6,480	\$43,875	\$26,400	\$
TOTAL	\$340,949	\$26,343	\$116,812	\$78,522	\$27,904	\$53,443	\$61,622	\$30,974	\$65,133	\$49,178	\$33,047	\$52,586	\$67,418	\$46,824	\$
Ranking	1	15	2	3	14	8	7	13	5	11		10	4	12	
RANKINGS FROM MOST TO LEAST EXPENSIVE															
Authority Charges	\$307,862	\$24,989	\$109,489	\$73,372	\$10,568	\$45,143	\$49,622	\$12,133	\$49,543	\$40,982	\$21,073	\$40,769	\$53,155	\$3,281	\$
Ranking	1	13	2	3	15	8	5	14	6	9		10	4	12	
Mooring	\$2,440	\$114	\$654	\$	\$3,481	\$1,600	\$1,724	\$1,990	\$	\$969	\$1,900	\$1,412	\$2,860	\$1,032	\$
Ranking	3	13	11		1	7	6	4		10		8	2	9	
Towage	\$28,547	\$1,025	\$5,734	\$5,150	\$6,271	\$6,700	\$11,410	\$10,852	\$13,240	\$5,989	\$10,535	\$10,416	\$9,416	\$10,528	\$
Ranking	1	15	13	14	11	10	3	4	2	12		7	9	6	
Pilotage	\$2,358	\$215	\$1,035	\$	\$7,586	\$2,852	\$2,852	\$4,141	\$2,350	\$1,278	\$5,539	\$1,870	\$1,992	\$1,983	\$
Ranking	6	13	12		1	5	5	3	7	11		10	8	9	
Total Private	\$33,687	\$1,354	\$7,423	\$5,150	\$17,338	\$8,300	\$11,410	\$18,841	\$15,590	\$8,216	\$18,074	\$11,828	\$14,268	\$13,543	\$
Ranking	1	15	13	14	4	11	10	3	5	12		9	7	8	

Ship safe
An inquiry into the AMSA Annual Report 1996-97

3.23 According to Captain Hay, competitive pilotage on the Great Barrier Reef was flawed for the following reasons.

- Entrance and training standards were lowered.
- Two companies compete, leading to twice the infrastructure being required.
- A price war resulted, leading to prices that did not cover costs.
- If one pilot firm were to go out of business, the other firm would be able to charge as much as it wished.
- If both firms were to go out of business, a government would have to supply the service because pilotage is compulsory. (Sub 5, *Submissions* pp. 80-1)
- 'With competitive pilotage you can come under commercial pressure not to report defects'. (Sub 5, *Submissions* p. 78)

The committee notes that this was the only submission on this issue.

3.24 The committee is concerned at the possibility that safety deficiencies are not being reported. By making such reporting compulsory, no firm should be commercially disadvantaged for acting responsibly.

3.25 Recommendation 4

The committee recommends that marine pilots be required to report all serious safety deficiencies to the Australian Maritime Safety Authority.

3.26 According to Captain Hay, an independent board should review the standards of selection, entry and training for pilots and set a fee scale (Sub 5, *Submissions* p. 81).

Uniform pilotage standards

3.27 The Queensland Coastal Pilot Service Pty Ltd advocated the development of national pilotage standards. It also argued that there should be a review of the regimes for:

- selection criteria (entry qualifications, including psychometric tests)
- initial training (competency based standards)
- professional development (courses relevant and applicable to pilotage)
- medical fitness (scope and frequency of assessments)
- fatigue and working patterns (Sub 2, *Submissions* p. 61)

3.28 The Queensland Coastal Pilot Service Pty Ltd noted that the head of the Marine Incidents Investigation Unit, Captain Kit Filor:

...has commented that he has found human error is evident in many investigated incidents, including those on well found Australian registered and manned vessels. A high proportion of these incidents have involved Australian pilots who are licensed under one of the various Federal or State licensing regimes. (Sub 2, *Submissions* p. 61)

Addendum to the submission by Reef Pilots Association Inc. to:

PRODUCTIVITY COMMISSION

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....."I believe that when proposals for privatising pilotage services are made, the safety issue should be at the top of the list of items to be considered.....There are a number of variations as to how private pilotage services can be provided and my main concern is that if competition is introduced it should be done in such a way as to avoid creating an unsafe situation on the water. Term contracts awarded on the basis of competitive tendering process are common and successful. An arrangement which results in a scrum amongst the providers of the service should be avoided."

Mr. William O'Neil, Secretary-General, International Maritime Organization.
Keynote Speech. 14th Conference of the International Maritime Pilots Association.
Shanghai. 8-13 November 1998.