

Salvage Capability

3.1 Currently salvage capability in Australia consists of 15 ocean going salvage capable tugs in Australia all of which are owned by Adsteam's subsidiary United Salvage and are normally engaged in harbour towage duties.¹ There are currently no vessels engaged exclusively in salvage services in Australian waters.²

3.2 The Insurance Council of Australia, in its submission, points out the difference between salvage tugs and tugs designed for use in harbour operations:

Typically, a salvage tug is differentiated from a pure harbour/port tug by virtue of significantly increased displacement and bollard pull, a raised forecastle design, special winches, long range fuel and water tanks and auxiliary power units. These are all intended to improve the tug's sea-keeping ability and suitability to engage in ocean salvage operations. Salvage capable tugs need to be on call 24 × 7 and crewed by trained and experienced personnel under the supervision of suitably skilled and experienced salvage masters.³

3.3 The Australian Shipowners Association gave further details of the different requirements for salvage capable tugs:

Salvage capability requires greater capital investment. Salvage capable vessels have a higher gross tonnage i.e. they are physically larger, than harbour towage vessels. The salvage capability requires larger vessels because:

1 Adsteam Marine Ltd, submission 10, page 4.

2 Insurance Council of Australia, submission 19, p. 6

3 Insurance Council of Australia, submission 19, p.7.

- more, and more extensive, crew accommodation is required (10 on outside salvage work compared to 3 for harbour towage work);
- the vessel is required to possess acceptable sea-keeping characteristics in “outside” (i.e. ocean-going) conditions compared to protected waters in harbours and rivers; and
- the vessel is designed in such a way that the full bollard-pull capability can be utilised in its full range of manoeuvring characteristics compared to the less rigorous circumstances in which harbour tugs operate.

The equipment required to take a large vessel in tow in the open seas could not normally be carried in a harbour tug. The harbour tug’s personnel would not necessarily be trained in open sea towage techniques, nor would the harbour tug provide reasonable accommodation for the crew required: accommodation needs to be more extensive in a tug that may be required to be at sea for days or weeks whilst the vessel to be towed is reached, made fast and towed to the intended destination.⁴

- 3.4 It quickly became clear to the Committee that the usual public perception that salvage operations consist simply of providing a tug to do the job, is quite a simplistic one. Adsteam explained that each tug working on a salvage operation is crewed by a highly skilled team and backed by a complex operation, to ensure that the tug crew has available to it the specialised equipment needed for any particular task:

Emergency response salvage capability is more than just the availability of suitable salvage capable tugs and crews. It includes experienced, trained salvage teams and management, salvage equipment, safety systems, salvors liability insurance coverage, with immediate response capability and the provision of backup tugs, people and equipment.⁵

- 3.5 The Australian Shipowners Association agreed when it said “...salvage capability is made up of experienced, competent, well trained personnel as well as well-found and suitable equipment.”⁶

- 3.6 It is impossible to predict how often salvage capability will be called upon. The need for salvage is inherently unpredictable. In Australia a salvor could go for years without being able to utilise its salvage capability. However, once that capability is needed, the difference between having the required assets available, and the lack of them, can be catastrophic.

4 Australian Shipowners Association, submission 7, pp.2-3.

5 Adsteam Marine Ltd, submission 10, p. 4.

6 Australian Shipowners Association, submission 7, p. 3.

- 3.7 Vessels that undertake salvage services are usually tugs that are primarily used for harbour towage but are capable of doing the heavier ocean-going work. Their use in a harbour role is an additional cost to the towage company, as salvage capable tugs are more expensive to buy, operate and to maintain.
- 3.8 Given the unpredictability of salvage work and the economic pressures to cut costs, there is a growing trend for companies to concentrate solely on providing harbour/port towage services. In addition, technological advances in cargo vessels are gradually reducing the number of tugs needed for a particular task.⁷
- 3.9 If current conditions continue, the case could arise where Australia has no salvage capable tugs to deal with an emergency. This is already the case in New Zealand. In January 2002 when the *Jody F Millenium* was aground off Gisborne, New Zealand, a tug had to be sent from Melbourne to save the ship. If Australia faced this situation, it could take two weeks or more for a tug from Singapore or South Africa to get to the scene.
- 3.10 There is evidence that this is beginning to occur. Two United Salvage tugs, *Gurrong* and *Redcliffe*, have already been sent to the United Kingdom as a result of competitive pressure in the towage industry rendering their continued operation in Australia uneconomic.⁸
- 3.11 Another factor is the perceptible improvement in the condition of vessels arriving in Australian ports. The Association of Australian Ports and Marine Authorities (AAPMA) referred to this in its submission, when it noted:

The proactive approach that the Australian Government has taken to port state control for vessels visiting Australian ports has led to a situation where Australia benefits from receiving a higher quality of vessels, in most circumstances, than those received in many other countries. This higher standard of vessels has, inevitably, reduced the likelihood of salvage incidents in Australian waters. However, this higher quality of vessels has, arguably, also led to a cost impost on Australian exporters who have a smaller pool of "Australian suitable" vessels from which to charter their requirements.⁹

7 AAPMA, submission 9, p.4.

8 Adsteam Marine Ltd, exhibit 3, slide 13, Insurance Council of Australia, submission 19, p. 7.

9 AAPMA, submission 9, p.3.

- 3.12 The Committee is pleased to see some positive evidence of the effectiveness of its recommendations in the *Ships of Shame* report.¹⁰
- 3.13 Adsteam considered that one or two tugs placed at the extremities would not be enough and explained its view of the general requirements for salvage in Australia and the type of vessel most suited to the task:
- Any emergency may take the form of salvage, wreck removal or simply rendering assistance to another vessel. The number of these incidents that occur in Australia, fortunately do not warrant specialised and dedicated services for each of these categories of emergencies. Analysis of the salvages will show that geographically close, high-powered, highly manoeuvrable combination salvage tugs are the most effective vessels to assist. Salvage dedicated vessels stationed at the extremities of the nation would not provide the fast and effective response that has been capable of being provided to date.¹¹

Salvage Options for Australia

- 3.14 Most submissions which focussed on the question of whether Australia should have its own salvage capability, strongly supported the idea. There was little evidence disagreeing with this concept.
- 3.15 The Committee was told of four options that could be used to provide salvage capability for Australia. These are:
- an Emergency Towing Vessel system;
 - reliance on nearest overseas dedicated salvage tugs;
 - using alternative types of vessels available in Australia; and
 - the strategic placement of salvage-capable tugs.¹²

Emergency Towing Vessels (ETVs)

- 3.16 The United Kingdom has four ETVs to cover 1,600 kilometres of coastline. These have a value of around £44 million (approximately \$A 120 million), and cost the UK Government approximately \$A 25 million per annum to maintain and operate.¹³

10 *Ships of Shame*, Report from the House of Representatives Standing Committee on Transport, Communications and Infrastructure, AGPS, Canberra, December 1992.

11 Adsteam Marine Ltd, submission 10, p. 5.

12 Adsteam Marine Ltd, exhibit 3, slide 13.

13 Adsteam Marine Ltd, exhibit 3, slide 17.

3.17 Regarding this option, Shipping Australia Ltd gave the following view:

The Discussion paper prepared for this enquiry [poses] the question whether the Government should consider having a publicly provided emergency and salvage system as in the United Kingdom. SAL believes that given the length of Australia's coastline, it is not practical on a national basis to have dedicated vessels on stand-by for what is a relatively rare event. The costs would be prohibitive, the preparedness would diminish without regular experience and the location may not prove to be most efficient in terms of distance from a particular incident.¹⁴

3.18 Bunbury Port Authority considered that: "The UK example is not relevant given the extent of coastline difference between the two countries and the nature of the Government responsibilities."¹⁵

3.19 'K' Salvage agreed with this approach and said:

Because of the lack of shipping in Australia and the vastness of our coastline, such ETVs would not be feasible in Australia.¹⁶

3.20 The Committee also considers that this alternative would be too costly and unsuitable for the Australian environment, especially considering Australia's 17,000 kilometres of coastline.

Reliance on Overseas Tugs

3.21 It has been suggested that one option for Australia is to forego its own salvage capability and place its reliance on overseas tugs. There was no support for this option in the evidence given to the Committee. Most submissions which focussed on the question of whether Australia should have its own salvage capability, strongly supported the idea that such capability should be available.

3.22 Mr Paul Bendy, of United Salvage (Adsteam), in the roundtable discussion with the Committee, commented:

My point was about whether Australia needs a salvage capability, and I most definitely believe it does. I believe it would be political suicide for the politicians of this country to come out and say it does not. Through whatever mechanism – I am not arguing how we maintain a salvage capability – Australia needs a salvage capability.

New Zealand is fortunate in that it is close to Australia. Australia's [next] nearest neighbour is 10 to 15 days away in steaming time.

14 Shipping Australia Ltd, submission 5, p. 4.

15 Bunbury Port Authority, submission 1, p.2.

16 'K' Salvage Co., submission 2, p.3.

Every situation does not allow 15 days to sit there bouncing up and down on the Great Barrier Reef before somebody will come along and assist that vessel and remove that vessel from the dangers and risks it may have got itself into.¹⁷

3.23 Mr Lew Russell CEO of Shipping Australia Ltd added:

I want to go back to that earlier question about whether we support Australia having salvage capability. Shipping Australia does. I think the point is that the owner should have the option of sources of salvage capability in Australia, particularly in the new security environment we are entering.¹⁸

3.24 Captain Jolly of 'K' Salvage Co. commented that "...it is essential to the economic and environmental well being of our Nation, that a high level of salvage expertise and equipment be maintained."¹⁹

3.25 He added that:

...When a marine casualty occurs it is no use waiting for days or even weeks, before experienced men and vital salvage equipment can be mobilised from overseas, we must maintain this capability right here in Australia. The Royal Australian Navy has no salvage capability to handle a major marine casualty, nor have the Water Police or any other Government Agencies.

...Only some commercial operators in Australia maintain limited salvage expertise and equipment. These operators (or others willing to get involved) must be encouraged not only to maintain this capability, but also to invest in new and more suitable equipment for the purpose of marine salvage in the future.

...Australia MUST have a Marine Salvage Capability, both in suitable towing vessels stationed at strategic locations around our coastline and a nucleus of skilled salvage personnel and equipment.²⁰

3.26 Adsteam, in its submission, summed up the difficulty in relying on overseas help in emergency situations:

The first hours after a marine casualty has occurred are critical. Notification to authorities, salvors, emergency response crews and other related parties must be swift. Mobilisation by salvors to the casualty must be measured in hours not days. A proposal to rely on salvage tugs coming from one of our nearest neighbours such

17 Mr Paul Bendy, transcript, Melbourne, 28 April 2004, p. 5.

18 Mr Lew Russell, transcript, Melbourne, 28 April 2004, p. 6.

19 'K' Salvage Co., submission 2, p.1.

20 'K' Salvage Co., submission 2, pp.2 and 4.

as Singapore would significantly reduce the emergency response effectiveness of this country. An example would be the mobilisation and steaming time for a salvage vessel to travel from Asia to a grounded vessel on the Southern end of the Great Barrier Reef. The steaming time is in excess of fourteen days.²¹

- 3.27 The Committee considers that reliance on overseas-based salvage vessels poses obvious problems, because of the long lead times required to get them to the scene of the emergency and also the loss of domestic skills and support services.

Use of Alternative Vessels

- 3.28 Similarly, alternative vessels available on the Australian coastline all have their drawbacks. For example, the most suitable “fill-in” vessels are the off-shore oil supply vessels, which have a capability to handle some salvage tasks. However, as ‘K’ Salvage pointed out in its submission:

...In most cases these types of vessels are fairly bound by their contracts and are not available to attend marine casualties. ...it must be remembered that their primary purpose is related to oil field operations.

...Such vessels are not usually equipped with sufficient towing gear to make an emergency towing connection to a vessel in distress, and few, if any, carry salvage equipment that may be required in such a scenario.²²

- 3.29 Mr Hoskinson of United Salvage (Adsteam), commented that:

...We have used oilfield vessels. We did on the *Jody F Millenium* over in New Zealand. It cost us \$US 46,000 a day to hire one and then they took it away after a week. So it is a limited option. Their priorities are not with salvage; their priority is that very expensive oilwell. That comes first.²³

- 3.30 The Australian Shipowners Association also called attention to the uncertainties about obtaining the release of vessels needed for emergency response/salvage operations:

...But just because a salvage capable tug is present in a port, does not mean it can be easily released to perform salvage work. This requires either back-up equipment to be made available by the existing port provider or cooperation from the port authority to release the tug. The latter point can be problematic as the port

21 Adsteam Marine Ltd, submission 10, p. 6.

22 ‘K’ Salvage Co., submission 2, p.3.

23 Mr Ian Hoskison, transcript 28 April 2004, Melbourne, p.12.

authority would want and need the port to continue to operate, regardless of the emergency for which the salvage-capable tug needs to be withdrawn.²⁴

3.31 Notwithstanding this point of view, the Committee describes in Chapter 4 its methodology for dealing with this situation.

3.32 Mr Bendy of United Salvage (Adsteam) summed up the general feeling at the roundtable discussion, when he said:

...We cannot just walk away from this problem and say, 'It did not work commercially, therefore we must not have needed it.' The fact is that we do need it. We have to try and establish a way where we can maintain that capability. ...²⁵

3.33 Shipping Australia, reporting on research carried out by the Australian Maritime Group on salvage capacity around Australia, noted that the Group's conclusions included the following comments:

Australia is dependent on its local fleet of salvage suitable vessels and there is no international assistance (e.g. Singapore) likely within 10+ days of a casualty occurring.

...It was recognised that the highest traffic areas e.g. Torres Strait, north of Geraldton WA and the Great Barrier Reef, were the leanest in specialist salvage response capability.²⁶

3.34 The Committee believes that it is important that Australia have its own ocean-going salvage capability, so that it may be utilised for emergency response situations. It agrees that maintaining an adequate salvage capability on the Australian coast is essential. The question of funding this capability is a more difficult problem.

3.35 A particular problem here is that the shipping industry is happy to see present arrangements continue:

The record shows that the availability of towage/salvage capability has been sufficient to deal with casualties around the Australian coast and for that reason the members of the Australian Shipowners Association are confident that existing towage/salvage capacity is sufficient.

...it follows that any expansion of emergency towage and salvage capacity would occur for public policy reasons. The industry does not see any operational requirement for such capacity.

24 Australian Shipowners Association, submission 7, p. 4.

25 Mr Paul Bendy, transcript 28 April 2004, Melbourne, p.15.

26 Shipping Australia, submission 5, p.2.

...If additional, salvage-capable capacity is to be provided in minor ports, and if returns on private capital investment cannot be such as to make for viable investment in salvage capable equipment, then the provision of such equipment for public policy reasons should be government funded.²⁷

Strategic Placement of Salvage Ready Tugs

3.36 The Committee notes that all shipowners have the right to enter into commercial salvage agreements with whomever they wish; but to counter emergencies, the first point of response needs to be in a position to stabilise the situation and give the owner/operator the opportunity to consider his options.

3.37 The Great Barrier Marine Park Authority, in its submission to the Committee stated;

The rate of shipping incidents in the Great Barrier Reef Marine Park is high. Since 1985, over six hundred shipping incidents involving minor pollution events have been reported. During that time, there have been 11 collisions and 22 groundings of ships or 1.9 incidents per annum in the inner route.²⁸

3.38 However, in an exhibit given to the Committee by United Salvage (Adsteam) listing salvage operations conducted in Australasian/South Pacific waters, only 74 incidents were listed from April 1998 to April 2004.²⁹

3.39 Ms Susan Blackwell, Executive Officer of the Australian Association of Australian Ports and Marine Authorities Inc (AAPMA) summed up the issues, emphasising that the placement of salvage capable tugs was the most important consideration:

Mr Payne has highlighted a particularly relevant point – that is, the distance that Australia lies from overseas providers of salvage. ...But the *Harmonic Progress* is a very interesting example, because it occurred on the coast of Queensland, which has its own peculiar sensitivities, being of course the Great Barrier Reef. Then, of course, you also have the Ningaloo Reef over in WA and the delicate fishing grounds not only around Tasmania but in a lot of areas around Australia. Those areas might require an instant response. To answer your question: I think it is highly desirable for Australia to have its own salvage and emergency response

27 Australian Shipowners Association, submission 7, p. 6.

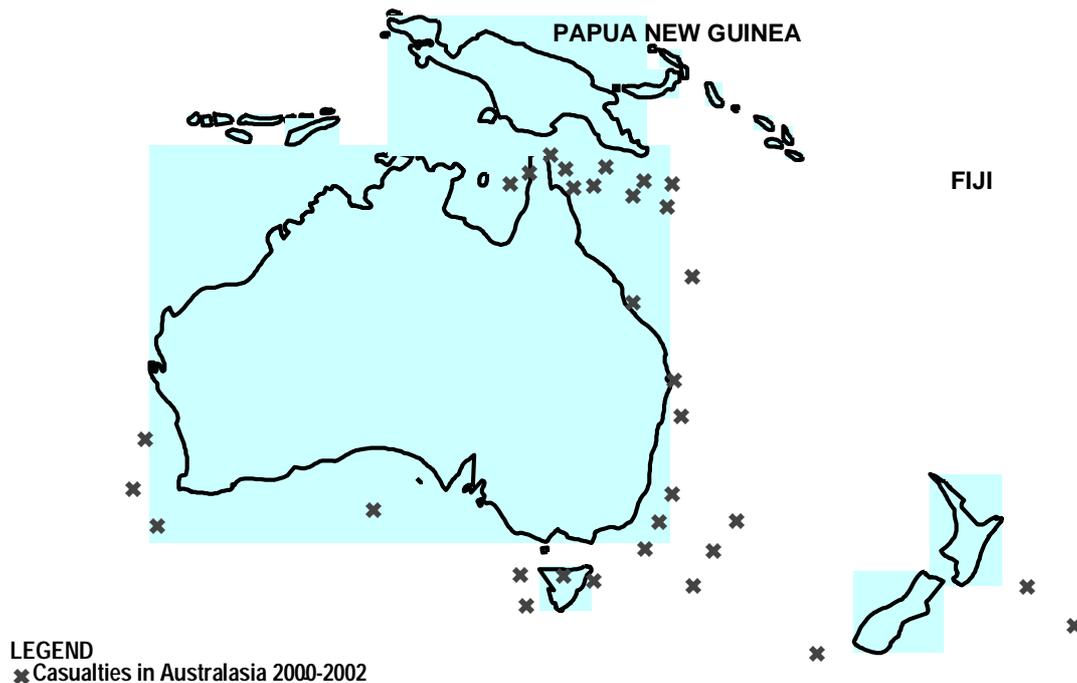
28 Great Barrier Reef Marine Park Authority, submission 11, p. 1.

29 United Salvage (Adsteam), exhibit 4, p.5.

capacity; it is where you place it that I think is the most important thing.³⁰

Where do incidents occur?

Figure 3.1 Maritime Casualties in Australasia 2000 - 2002



Source *Adsteam Marine Ltd, submission no 10, p. 7.*

3.40 Captain Dale Cole has suggested that emergency response/salvage vessels be stationed in eleven strategic ports around Australia to cover Australian waters in the areas indicated:

- Queensland:
 - ⇒ Weipa: the Gulf of Carpentaria, North East Channel, Torres Strait and Australian Waters from Cape York to Cape Flattery;
 - ⇒ Townsville: from Cape Flattery to Mackay;
 - ⇒ Gladstone: from Mackay to Sandy Cape; and
 - ⇒ Brisbane: from Sandy Cape to Point Danger.
- New South Wales:
 - ⇒ Brisbane: from Point Danger to Coffs Harbour; and;
 - ⇒ Port Botany/Port Jackson: from Coffs Harbour to Cape Howe.

30 Ms Susan Blackwell, transcript, Melbourne, 28 April 2004, p. 5.

- Victoria and Tasmania:
 - ⇒ Melbourne: from Cape Howe inclusive of Bass Strait, the waters off Tasmania and west to Portland.
- South Australia:
 - ⇒ Adelaide: Australian Waters from Portland to the projection of the South Australian/Western Australian border south and including the waters of the Spencer Gulf and the Gulf of St. Vincent.
- Western Australia:
 - ⇒ Fremantle: from the South Australian border to Geraldton; and
 - ⇒ Dampier/Port Hedland: from Geraldton to the Western Australian/Northern Territory Border extending into the Timor Sea.
- Northern Territory:
 - ⇒ Darwin: from the Western Australian/Northern Territory Border extending into the Timor Sea and east to Gove.³¹

3.41 The placement of salvage capable tugs in recent years has been as set out in Table 3.1.

Table 1 - Present Placement of Adsteam salvage capable tugs

PORT(S)	TUG(S)
Brisbane	Austral Salvor, Redcliffe*
Gladstone	Tom Tough, Wistari
Bowen	Denison, Gloucester
Sydney	Woonah, Wonga
Melbourne	Gabo, Keera, Gurrong*
Westernport	Cooma, Hastings
Adelaide	Tusker, Tarpan
Whyalla	Taminga
Fremantle	Wambiri
Papua New Guinea, Fiji	Brighton Nelia

* These salvage capable tugs left Australian waters during 2003

Source: Adsteam, exhibit number 3

31 Captain Dale Cole, submission 3, pp. 3-4.

3.42 Shipping Australia suggested that :

...major and strategically located ports should provide for exclusive licences which includes at least one tug having ocean going capability and such licences could also include minimum standards in terms of training, safety and operational capability offshore regarding the use of that tug in specified circumstances.

...These arrangements could be backed by state legislation to enable a central body to require the use of such tugs in specific circumstances and to provide any necessary indemnities for commercial damages that may arise from operational delays.³²

3.43 The Committee notes that the Australian Maritime Group (a subcommittee of the ministerial Standing Committee on Transport) has commissioned a report on Salvage Capacity around Australia. The Terms of Reference are shown at Appendix D. A report is expected towards the end of this year.

3.44 The Committee believes that the need for strategic placement of salvage capable tugs at appropriate ports around Australia is beyond question. It is the Committee's strong view that the recommendations by Captain Cole in his evidence, was compelling as a minimum requirement.

Recommendation 1

3.45 **The Committee recommends that the Australian Maritime Safety Authority, with industry consultation and input, make an assessment of Australian ports to determine the most strategic placements for salvage-capable tugs and their equipment.**

Productivity Commission Report on the Economic Regulation of Harbour Towage and Related Services

3.46 This inquiry is derived from the Productivity Commission's report on the Economic Regulation of Harbour Towage and Related Services (the Productivity Commission Report)³³ and the Committee has carefully examined the Commission's views.

32 Shipping Australia Limited, submission 5, p.2.

33 *Economic Regulation of Harbour Towage and Related Services*, Productivity Commission Report No 24, 20 August 2002.

3.47 The Productivity Commission Report made the following observations regarding maritime salvage:

- efficient provision and pricing of harbour towage (whether this is promoted through direct competition, competitive tenders or price regulation) need not affect provision of salvage.
- competitive tendering (for exclusive or non-exclusive licences) need not alter the market incentives for provision of salvage, provided that ports do not explicitly proscribe salvage by, for example, prescribing maximum tug requirements in the port.
- if ports were to introduce licences specifying a minimum standard of harbour towage capacity, additional salvage capacity would continue to be provided in individual ports if it were profitable to do so.
- if the optimal level of emergency salvage capacity (and its location) is not privately profitable (under current or alternative arrangements for towage), then intervention may be warranted.³⁴

3.48 Adsteam outlined the difficulties facing private sector operators:

The vastness of the Australian coastline makes it impossible to provide dedicated emergency response capability to cover its entirety. Some 30 years ago, the concept of dual-purpose salvage/port tugs was developed, supported by a core of experienced salvage staff. United Salvage is able to call upon Adsteam tugs in their various port operations around the coast to meet “outside” emergencies. This has proved to be a convenient, fast skilled and economic service by the private sector, with cost borne largely by private sector insurers.

We are finding now, however, that the tug customers who use Australian ports and port owners themselves, all of whom are facing competitive pressures for greater reliability and efficiencies, are increasingly uneasy that a port could lose towage capability to attend a vessel in trouble “outside”. These competitive pressures make it unlikely that tug companies will in the future be able to afford to invest in salvage capable tugs and equipment.³⁵

3.49 Examining the same topic, the Insurance Council of Australia commented:

There is a growing perception that the current dual-purpose model, as presently provided by the private sector is under threat. Port owners and their customers, in seeking greater efficiencies (and associated cost savings), are increasingly focusing their

34 *Economic Regulation of Harbour Towage and Related Services*, Productivity Commission Report No 24, 20 August 2002, p. 237.

35 Adsteam Marine Ltd, submission 10, pp.12-13.

requirements on securing towage services which meet the ports immediate requirements. Increasingly, insufficient regard is given to encourage the maintenance or enhancement of the salvage capability to intervene and assist in an emergency around the Australian coast. If the providers of harbour towage services are not required to build-in and enhance the salvage capability of the tugs they engage then, with competition, Australia is likely to witness a degradation, rather than a building up, of its present salvage capability.³⁶

3.50 Mr Lachlan Payne, Chief Executive of the Australian Shipowners Association, added:

I think that the evidence suggests that the provision of salvage capability has been adversely affected by what is described as efficient harbour towage pricing mechanisms.³⁷

3.51 The Committee did not accept the Productivity Commission's analysis, as outlined in its observations above, and noted that these were unfortunate comments on a serious matter.

3.52 Despite the Productivity Commission's belief that market forces will continue to provide the necessary salvage capability, the evidence before this Committee indicates that this may not be the case for much longer.³⁸ Adsteam, in its submission, suggested:

The revenues in a salvage business are unpredictable due to the inherent irregular nature of the business. In Australia the frequency of casualties that require salvor assistance is low. . . but there is still a real need to have an effective emergency salvage capability strategically located around the Australian coast. The provision of salvage services by itself in Australian waters is not a profitable business and thus must co-exist with harbour towage to be viable. For this to happen however requires that all towage operators, who wish to operate in strategically located (for salvage) ports, must meet a prescribed level of emergency salvage capability.

36 Insurance Council of Australia, submission 9, p. 7.

37 Mr Lachlan Payne, transcript of evidence, Melbourne, 28 April 2004, p. 42.

38 *Economic Regulation of Harbour Towage and Related Services*, Productivity Commission Report No 24, 20 August 2002, p. 237.

- 3.53 The Committee agrees that the availability of emergency response/salvage capability at key points on the Australian coastline, is a very important issue. It is essential that protection is readily available for some of the very vulnerable coastal areas, such as the Great Barrier Reef, the West Australian coast and the fishing grounds off Tasmania.
- 3.54 The Committee considers that the issue of salvage capability has gained additional importance that touches on Australia's national security (due to recent international events) and its environmental integrity.
- 3.55 Mr Paul Bendy of Adsteam (United Salvage), commented that it is a common misconception that all salvage operations are highly lucrative. He said:
- Everybody keeps saying there are highly lucrative salvage opportunities, but the fact is that only 20 per cent of the jobs being done around Australia in recent years have been done on LOF. And that does not necessarily mean that all those have been highly lucrative. Think of a situation where one company was providing Australia's salvage capacity and there was a year where there were no salvage jobs. That would put enormous strain on that capability's ability to continue. There are certain cash flow implications as a result of that.³⁹
- 3.56 Harbour towage contracts naturally do not take salvage operations into account and a harbour towage contractor is usually not obliged to provide salvage capable tugs. This is obviously a business decision and those towage providers that do have salvage capability have warned the Committee that based on a business case alone, the basis for a company maintaining salvage capability, is steadily weakening. As already mentioned, two salvage capable tugs have recently disappeared from Australian waters because of better economic returns elsewhere.
- 3.57 The Australian Shipowners Association summed up this issue by saying:
- ... But when a towage operator has both harbour service and salvage-capable tugs operating in the one port, that operator maybe (sic) at a disadvantage when it comes to competition. If an alternate operator wanted to compete in that port with only cheaper, harbour-classed tugs, he is advantaged by the lower operating costs of his fleet. While this is fine for the particular port it may not be in the national interest.

39 Mr Paul Bendy, transcript, Melbourne, 28 April 2004, p. 15.

As a result it is not hard to envisage a situation where the operator providing salvage capability, is forced to move towards only operating harbour tugs in order to continue to compete.⁴⁰

3.58 Adsteam acknowledges the influence of competition in keeping towage prices down but highlighted the difficulty caused by splitting an already small level of business:

The threat of competition in a port has the effect of maintaining towage prices at an efficient level in the port. However the actual entry of competition in a port has an immediate effect of reducing the incumbent's market share significantly. This reduction in revenue, accompanied by a need to maintain the fixed assets i.e. tugs and berth infrastructure, and little opportunity to reduce crew costs, results in a significant reduction in profit margin. To compound this issue there is also some degree of price reduction as the competitor will most likely undercut existing pricing regimes in an effort to secure more business. This further reduces the incumbent's revenue that is available to cover overheads.

The result is that overheads such as maintaining an incremental salvage capability in the port as part of the harbour towage fleet can no longer be carried and consideration must be given to reducing costs to enable direct competition on a level playing field. The tendency is for all harbour towage operators to move towards the lowest cost harbour tug, berth infrastructure and crew skill level that will meet the ports specified requirements. This must be done to ensure that profit margins are not reduced to unacceptable levels.

The provision of salvage services by itself in Australian waters is not a profitable business and thus must co-exist with harbour towage to be viable. For this to happen however requires that that all towage operators, who wish to operate in strategically located (for salvage) ports, must meet a prescribed level of emergency salvage capability.

Two other less obvious costs for the salvage operator are the lost opportunity costs that may be incurred from lost towage revenue when a tug is called out on a salvage and the intangible cost of disaffected harbour towage customers under these circumstances.⁴¹

40 Australian Shipowners Association, submission no. 7, p. 4.

41 Adsteam Marine Ltd, submission 10, pp. 8-9.

3.59 Captain Dale Cole has suggested two ways in which this problem might be overcome:

As ship owners and/or ship operators are the main beneficiaries of an emergency response/salvage regime, levying all vessels calling at Australian ports is a practical suggestion. Such a levy could be part of each individual marine safety authority's cost recovery regime or as a separate component of the Commonwealth's Light Dues regime. A tenet implied in this suggestion is that revenue collected would be revenue neutral and the quantum determined by a financial modelling exercise.

Alternatively, each designated maritime safety authority would fund the cost of stationing emergency response/salvage vessels in the port or ports under their jurisdiction on the premise that the community is the major beneficiary in an emergency response/salvage task. The amount of funding would be determined by independent modelling ... The designated maritime safety authority would be compensated for this support by having an agreement with each of the emergency response/salvage providers to recover the cost of this support by sharing the salvage award on a 50:50 basis when the provider successfully secures a salvage contract.⁴²

3.60 As an alternative to increasing Light Dues, salvage capability could be funded through an increase in funds collected under the Shipping Levy Act.⁴³

3.61 Another method by which salvage capability could be funded is by requiring, in certain designated ports, that the harbour towage provider, as part of its contract, include a salvage capability. However, there are problems associated with this approach:

- ports requiring salvage capability would have to charge more for their towage service, which would then be passed on to shippers:
 - ⇒ this could reduce a port's competitiveness; and,
 - ⇒ a national salvage capability would be subsidised by only a few shippers.

3.62 The Fremantle Ports Authority supported this view in informal discussions during the Committee's port inspection.

42 Captain Dale Cole, submission 3, p.4.

43 NSW Ministry for Transport, submission 12, p. 7.

3.63 The Australian Shipowners Association, with regard to this problem, said:

It is important from a user's perspective that the additional costs associated with the purchase of a salvage-capable tug over a standard harbour duties tug, are not subsidised by the port users. These additional costs must be paid for by the salvage and emergency response revenue of the operator's business. This is to ensure competitive port towage tariffs and ensure the viability of that section of the operator's business.⁴⁴

3.64 The Association of Australian Ports and Marine Authorities (AAPMA) pointed to the risk that other ports located near the salvage capable ports could receive a "free ride" in terms of emergency response salvage.⁴⁵

3.65 Shipping Australia holds the view that certain designated ports should have exclusive harbour towage licences that provide for an emergency response capability, including minimum training, safety and operational standards.⁴⁶

3.66 It was suggested that the Australian Government could subsidise salvage capability in ports. If adopted, this suggestion would cost approximately \$6.5 million per annum.⁴⁷

3.67 The NSW Ministry of Transport⁴⁸ argued that the case for Australian Government funding is supported by the obligations placed on the Australian Government under the following conventions:

- the Maritime Search and Rescue Convention which dictates the need for search and rescue within Australia's MARSAR sea area;
- the Oil Pollution Preparedness and Response Convention which requires the adoption of measures to protect the marine environment from actual or threatened pollution;
- the Law of the Sea Convention which grants jurisdiction to protect the marine environment within the Exclusive Economic Zone.⁴⁹

3.68 The NSW Ministry of Transport said that:

...the Commonwealth has accepted its responsibilities for maritime search and rescue over a vast sea area and the provision of maritime salvage capability should be an integral part of this responsibility.⁵⁰

44 Australian Shipowners Association, submission 7, p. 4.

45 AAPMA, submission 9, p. 6.

46 Shipping Australia Ltd, submission 5, p. 2.

47 Adsteam Marine Ltd, submission 10, p. 16.

48 NSW Ministry for Transport, submission 12, p. 7.

49 These obligations are discussed in Chapter 4.

50 NSW Ministry for Transport, submission 12, p. 7.

- The Queensland Government submission also supported this view.⁵¹
- 3.69 The BHP Billiton Mitsubishi Coal Alliance (BMA), in its submission indicated that “...we are also concerned to ensure there is an effective response for emergency salvage in our region...” However, BMA’s priorities were emphasised in its follow-up comments, which said:
- ...in a way that is compatible with the uninterrupted and efficient operation of [Hay Point Coal Terminal]. ...Our tugs, ..., are likely to be called upon to assist in emergencies, ... However, unless we were assured of adequate replacement/remedy, BMA’s operations could be significantly disrupted and our commercial interests affected.⁵²
- 3.70 The South Australian Freight Council went even further. Its submission said that government should not “...directly intervene in these commercial negotiations, but should ensure that a suitable salvage capability remains available to shipping operating in Australian waters.” The Council then went on to say that because of the Commonwealth’s responsibilities outside the three-mile limit and for national security and defence:
- ...the Commonwealth would require access to salvage and emergency salvage capacity. It should not require the private sector to satisfy this ...obligation.
- The Commonwealth should also consider compensating towage service providers, shipping lines and port operators for lost revenue when the usual towage service is unavailable when required to attend to emergency situations, as well as when unavailable for training purposes.⁵³
- 3.71 The Fremantle Ports Authority expressed similar ideas and suggested that:
- ...the additional cost of providing ocean-going emergency towage capability (i.e. the cost over and above that of normal harbour towage provided on a cost effective basis) should be funded as a taxpayer benefit.⁵⁴
- 3.72 The Committee considers that any funding for salvage capability must have two main characteristics.
- fairness in the spread of the cost; and
 - minimal impact on the provision of towage services.

51 Queensland Government, submission 22, p. 3.

52 BHP Billiton Mitsubishi Coal Alliance, submission 20, pp 1-2.

53 South Australian Freight Council, submission 23, p.2.

54 Fremantle Ports Authority, submission 24, p.1.

- 3.73 The requirement for salvage capacity in a specified port should be made known to the industry well in advance of the tendering process for a new harbour towage contract. Each interested company could then decide whether it wished to take on the contract under the specified conditions. The tender document should require the tenderer to separately identify the costs of providing the salvage/emergency response service.
- 3.74 Given the above assessment and requirements, the Committee suggests that the best way to raise the additional revenue, for the provision of emergency response/salvage capability, would be by sharing the funding equally between the users, the States and the Commonwealth.
- 3.75 The Committee considers that this is a tripartite responsibility between the shipowners, using Australian and state waters, the States, who have responsibility within the three mile limit, and the Australian government, for its international obligations and security responsibilities.

Recommendation 2

- 3.76 **The Committee recommends that to support the continued provision of salvage capability in designated ports, the additional revenue should be raised by:**
- **an increase in either light dues or the shipping levy to raise one-third of the estimated revenue required;**
 - **the Australian States and the Northern Territory to provide one-third; and**
 - **the Australian Government to provide the remaining one-third.**
- 3.77 The subsidy should be paid to a contracted company, subject to the following conditions:
- the company would be audited to ensure that:
 - ⇒ the subsidy paid is an accurate reflection of the additional costs incurred in providing salvage capability; and,
 - ⇒ salvage capability, such as equipment and trained staff, is kept up to the required standard.
- 3.78 The Committee wishes to be satisfied that the spirit of this proposal is complied with. It considers that the recommended tripartite funding arrangement should be reviewed every three years to ensure that the funds are being used appropriately.

Recommendation 3

- 3.79 **The Committee recommends that the subsidy for salvage capability be paid to a company which successfully tenders for the towage contract in a designated port, subject to an audit by AMSA to ensure that salvage capability is maintained at a satisfactory standard and the sum involved is an accurate reflection of the costs incurred.**

Recommendation 4

- 3.80 **The Committee recommends that the tripartite funding arrangement proposed in recommendation 2, be reviewed every three years by the Australian Transport Council's Standing Committee on Transport.**

