

2013 PORTS PRICE MONITORING REPORT

November 2013



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GLOSSARY OF TERMS

2012 Review	2012 Ports Pricing and Access Review Final Report
Asciano	Asciano Limited
BDO	BDO Audit (SA) Pty Ltd
CAGR	Compound Annual Growth Rate
Commission	The Essential Services Commission of South Australia
CPI	Consumer Price Index
EBA	Enterprise Bargaining Agreement
EMS	Essential Maritime Services
ESC Act	<i>Essential Services Commission Act 2002</i>
Flinders Ports	Flinders Ports Pty Ltd
GRT	Gross Registered Tonnage
Guideline	Ports Industry Guideline No. 2
MSA Act	<i>Maritime Services (Access) Act 2000</i>
PIRSA	The Department of Primary Industries and Regions SA
Port of Brisbane	Port of Brisbane Pty Ltd
Port of Melbourne	Port of Melbourne Corporation
Regulatory Accounts	Regulatory Account Reports set out by Guideline No. 2
Sydney Ports	Sydney Ports Corporation
Tonnage	Tonnage of cargoes handled
Vessel calls	Number of trading voyages to a port
Viterra	Viterra Ltd
VTS	Vessel Tracking System

1. EXECUTIVE SUMMARY

The Essential Services Commission of South Australia (**Commission**) is responsible under the *Maritime Services (Access) Act 2002* (**MSA Act**) for regulating prices and access to six commercial ports in South Australia, operated by Flinders Ports Pty Ltd (**Flinders Ports**). Under the current ports price regulatory regime, Flinders Ports is allowed to adjust its prices for as it sees fit, subject to the requirement that it publish a price list and inform the Commission of changes to that list.

The Commission publishes annual ports price monitoring reports to provide information on prices and commentary on factors underpinning price movements. The current price monitoring regime will exist until 30 October 2017.

This is the first annual ports price monitoring report published by the Commission following its 2012 Ports Price Determination. It reports on prices set by Flinders Ports in May 2013 to apply during the 2013/14 year.

The Commission's price monitoring regime involves an evaluation of Flinders Ports' price increases as compared to changes in the Consumer Price Index (**CPI**), with the expectation of adequate justification for any rise in prices above CPI. For the purposes of this report, the Commission used the Adelaide March 2012 to March 2013 All Groups CPI in its price change comparison. The Commission has observed that all of Flinders Ports' 2013/14 ports prices have increased at a rate above the CPI figure of 2.2%.

The Commission's price monitoring regime primarily applies to Essential Maritime Services (**EMS**); these take the form of Cargo, Harbour and Navigational Services. Both Cargo and Harbour Service charges have increased by an average 2.9% (nominal) on the previous year, primarily due to increased wage costs as a result of Flinders Ports' current Enterprise Bargaining Agreement (**EBA**). The Navigational Service charge also experienced an above-CPI increase of 3.2% primarily due to continued high capital expenditure. Pilotage Services are subject to price monitoring under the MSA Act. The EBA increased Pilotage Service charges above CPI, by 3.8% (nominal), as costs of this service are heavily dependent on wages.

The Commission has examined information presented by Flinders Ports to justify the price increases in its regulated services and has had regard to ports price movements that have taken place in other jurisdictions. The Commission has also considered the level of investment that Flinders Ports is incurring in order to meet expected future demands and improve efficiencies.

Flinders Ports has also provided assurances to the Commission that ports users were consulted prior to the implementation of these price increases. In addition, no concerns have been raised with the Commission over price increases following their publication by Flinders Ports. Overall, the Commission considers that the price increases are reasonably justified.

The Commission welcomes any comments in relation to the issues discussed in this report.

2. INTRODUCTION

2.1 Background

The Essential Services Commission of South Australia (**Commission**), established under the *Essential Services Commission Act 2002 (ESC Act)*, is the economic regulator of certain South Australian ports. Under the ESC Act, the Commission's principal objective is to protect the long-term interests of South Australian consumers of essential services with respect to the price, quality and reliability of essential services. The legislative framework for the Commission's economic regulation functions in relation to ports is provided through the *Maritime Services (Access) Act 2000 (MSA Act)*.

Under the MSA Act, the Commission is responsible for the regulation of pricing and access at proclaimed ports. The Pricing and Access Regimes cover the six commercial ports in South Australia which are currently operated by Flinders Ports Pty Ltd (**Flinders Ports**), namely:

- ▲ Port Adelaide;
- ▲ Port Giles;
- ▲ Wallaroo;
- ▲ Port Pirie;
- ▲ Port Lincoln; and
- ▲ Thevenard.

Under the MSA Act, price regulation applies to certain infrastructure services known as 'Essential Maritime Services (**EMS**)' and Pilotage charges. Access regulation applies to a similar, but not identical, set of services known as 'Regulated Services'. Some regulated services (i.e. bulk loader services) are provided by Viterra Limited (**Viterra**) and are therefore subject to the Commission's Access Regime. However, as Viterra does not provide any EMS, it is not subject to the price regulation.

In October 2012, the Commission released a Ports Pricing and Access Review Final Report, which fulfilled its legislative obligation to review whether or not the ports pricing and access regimes should continue beyond 30 October 2012, for a further five-year period. Accompanying this Final Report, the Commission issued a Ports Price Determination which provides for a relatively light-handed form of price regulation.¹ It allows ports operators to set EMS prices, but it does so in the context of the Commission monitoring these prices and publicly reporting on them. A similar price monitoring regime exists for Pilotage Services, as established under section 8 of the MSA Act.

Under the existing regulatory regime, the Commission publishes annual ports price monitoring reports, to provide information on prices and commentary on factors

¹ The 2012 Ports Price Determination is available on the Commission's website at:
<http://www.escosa.sa.gov.au/projects/172/2012-ports-pricing-and-access-review.aspx>

underpinning price movements. The Commission is able to enforce a heavier handed form of regulation if it believes that information provided by ports operators does not adequately justify any real price increases, or if there is any other reason to conclude that a heavier-handed form of price regulation is more appropriate.

2.2 Ports Price Regulatory Regime

The economic regulation of South Australian ports is underpinned by a negotiate-arbitrate regulatory framework. Whilst requiring ports operators to publish reference prices is an important starting point, ports users are encouraged to engage in commercial negotiations with the ports operator over prices and service standards. Flinders Ports has provided information to the Commission regarding the success of several commercial negotiations over new pricing agreements with different ports users; the Commission has not become aware of any unsuccessful negotiations.

Two sets of ports infrastructure services are covered by the price monitoring regulatory regime. These are discussed below.

2.2.1 Essential Maritime Services

Section 4 of the MSA Act defines EMS as providing:

- ▲ for access of vessels to a proclaimed port; or
- ▲ ports facilities for loading or unloading vessels at a proclaimed port; or
- ▲ berths for vessels at a proclaimed port.

At present, three ports prices cover these EMS:

- ▲ Navigation Service charge;
- ▲ Harbour Service & Mooring charge; and
- ▲ Cargo Service charge.

These three prices, in aggregate, cover the suite of EMS. They also correspond relatively well with the three-part definition of EMS. There is no particular requirement for each price to correspond to each part of the definition.

There are varying terms applying to the same services in ports around Australia. For the purposes of clarity, the range of ports services covered by EMS can be said to include services relating to the provision of: navigational aids, harbour control (but not pilotage or towage), channels, berths, wharves, cargo loading and unloading (marshalling) areas (but not loading or unloading itself), jetties, berth pockets, fenders, mooring structures, mooring and unmooring, and provisioning connections (but not provisioning).

2.2.2 Pilotage Service Charges

Pilotage Service is not an EMS but its prices are subject to a similar form of price regulation, as specified in section 8 of the MSA Act.

This price regulation regime requires the operator of a proclaimed port to maintain a schedule of Pilotage Service charges and to provide the Commission with a current schedule and notice of any proposed changes to prices.

In accordance with this requirement, Flinders Ports advised the Commission in May 2013 of a nominal increase of 3.8% (1.6% real) in its 2013/14 Pilotage Service charges.

2.3 Ports Price Monitoring Methodology

In developing its ports price monitoring reports, the Commission focuses on trends in the published prices of EMS and Pilotage Service charges, and whether or not prices have moved in line with the Consumer Price Index (**CPI**).²

If the Commission's price monitoring reveals that price increases have exceeded the change in CPI, it requests the ports operator to justify those increases. The Commission scrutinises the justifications and states the findings in its annual ports price monitoring reports.

2.4 Purpose of Report

The purpose of annual ports price monitoring reports, such as this one, is to provide South Australian port users and other members of the community with information regarding regulated ports prices and activities at South Australia's proclaimed ports. They also provide the Commission with a basis for assessing the effectiveness of the price monitoring regime and assist the Commission in determining the appropriate form of price regulation to apply in future ports price determinations.

² In comparing the change in 2013/14 prices to the change in CPI, the Commission utilised the change in the Adelaide All Groups (Basket of all goods/services considered) CPI from March 2012 to March 2013, as published by the Australian Bureau of Statistics. Where Flinders Ports adopts CPI changes to its port prices, this is the measure of CPI that is used.

The Commission notes that for simplicity, all references to CPI in this paper are published as annual changes in the following format: *City-Quarter-Year*. For example the Adelaide All Groups CPI from March 2012 to March 2013 is published as *Adelaide March 2013*.

3. SOUTH AUSTRALIAN PORTS INDUSTRY

Ports are key contributors to South Australia’s economic prosperity, providing essential interfaces between land and maritime transport.

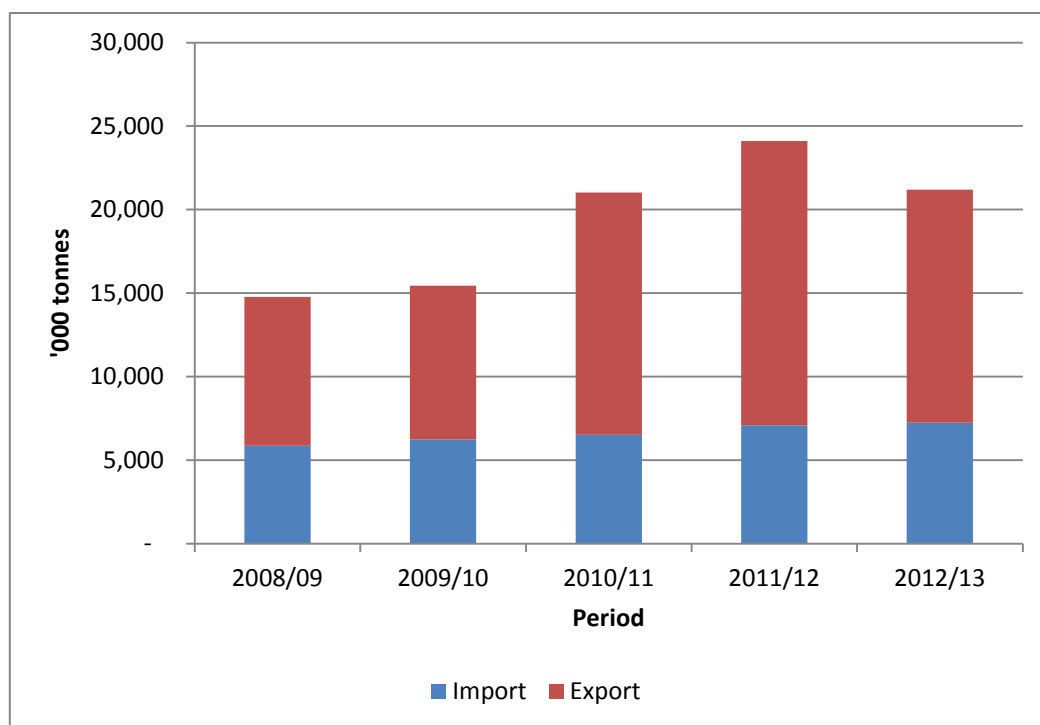
This chapter provides a review of the South Australian ports industry to provide relevant context to the ports price changes described in chapter 5. For example, growth in ports activities helps the Commission assess whether or not price increases can be justifiable by capital expenditure requirements to deal with that growth.

3.1 Cargo Throughput

Cargo throughput (total import and export tonnage) is a key driver of port activities. Figure 3-1 summarises cargo throughput tonnages for all regulated ports operated by Flinders Ports over the past five years.

Figure 3-1 highlights the relative stability of imports, in comparison to the more volatile nature of exports (which are often dependent on crop availability).

Figure 3-1: Total annual cargo throughput



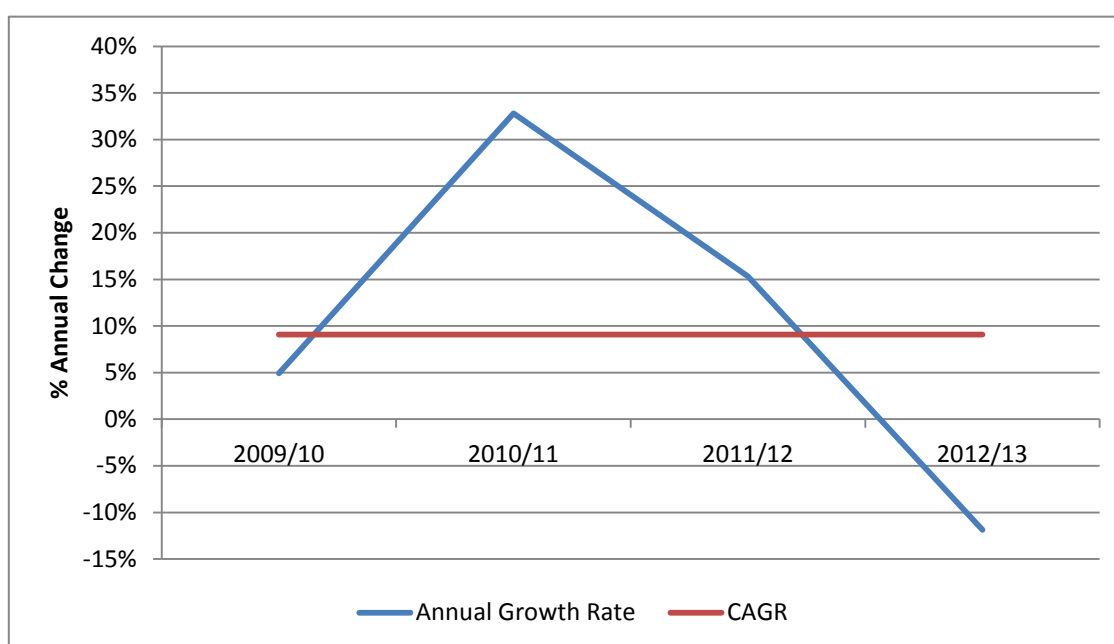
Source: Flinders Ports

Both 2010/11 and 2011/12 produced substantial crops which drove significant growth in marine exports. The Department of Primary Industries and Regions SA (**PIRSA**) reported that

in 2010/11, South Australia produced its largest crop on record, eclipsing the previous record by 10%.³ 2011/12 saw South Australia's third largest crop produced on record.⁴

Figure 3-2 compares the annual rate of change and the compound annual growth rate (CAGR) of cargo throughput tonnage at all regulated ports.⁵ Total cargo throughput declined by 12.1% in 2012/13 which is below the past four-year CAGR of 9.4%. Total imported tonnage was relatively stable in 2012/13, with a 2% increase from the previous year; this is below the past four-year CAGR of 5.5%. Total exported tonnage, however, experienced an 18% decrease on the previous year; this is below the past four-year CAGR of 11.8%. Although this decrease in tonnage exported appears large, it is compared to the previous year's exports, which included a substantial year of crop production.

Figure 3-2: Annual rate of change of total cargo throughput



Source: Flinders Ports

3.2 Port Activities

Port activity is often measured as 'vessel calls', the number of voyages made by a ship to a port.

The decline in exports from 2011/12 to 2012/13 translated into a reduction in the number of vessel calls at five of the six regulated ports, with Port Adelaide the only port that did not experience a reduction in vessel calls from the previous year. Over the past 4 years, vessel

³ PIRSA, *2010/11 Crop Performance Summary and Final Crop Estimates*, March 2011; available at: http://www.pir.sa.gov.au/_data/assets/pdf_file/0007/152377/CPR_Final_Estimates_March_2011.pdf

⁴ PIRSA, *Crop and Pasture Report South Australia 2011-12 Crop Summary*, March 2012; available at: http://www.pir.sa.gov.au/_data/assets/pdf_file/0007/168829/Crop_and_Pasture_Report_Crop_Summary_March_2012.pdf

⁵ The CAGR is an effective measure of growth over multiple time periods and is used by the Commission for the purpose of its ports price monitoring.

calls at Port Giles has increased by 23% whilst vessel calls at Port Pirie has declined by 8% (as measured by CAGR).

There were a total 1,533 vessel calls in 2012/13, with almost 80% of those vessel calls being at Port Adelaide.

Table 3-1 presents the number of vessel calls to each of Flinders Ports' ports between 2008/09 and 2012/13.

Table 3-1: Vessel calls by port

	2008/09	2009/10	2010/11	2011/12	2012/13	2012/13 CHANGE	4-YEAR CAGR [^]
Port Adelaide	1,011	1,040	1,125	1,221	1,225	0%	5%
Port Giles	14	11	35	42	32	-24%	23%
Port Lincoln	104	82	133	124	101	-19%	-1%
Port Pirie	78	65	54	63	57	-10%	-8%
Thevenard	86	99	141	126	87	-31%	0%
Wallaroo	33	25	49	46	31	-33%	-2%
All Ports	1,326	1,322	1,537	1,622	1,533	-5%	4%

Source: Flinders Ports

[^] Compound Average Growth Rate

Similar to the observed level of vessel calls, total tonnage of cargoes handled at Flinders Ports' operated ports in 2012/13 was lower (12%) than that reported in 2011/12. Whilst the reduction in tonnage at Port Pirie and Port Adelaide was modest, at 7% and 3% respectively, all other ports experienced a large reduction in tonnage.

Table 3-2 presents the total tonnage of cargoes handled at each regulated port between 2008/09 and 2012/13.

As noted above, the increased availability of grain in the 2010/11 and 2011/12 periods is likely to explain the high growth in trade over this period.

Table 3-2: Total cargo throughput handled by port ('000 tonnes)

	2008/09	2009/10	2010/11	2011/12	2012/13	2012/13 CHANGE	4-YEAR CAGR
Port Adelaide	9,720	10,600	12,720	15,670	15,166	-3%	12%
Port Lincoln	1,435	1,308	2,933	2,998	1,893	-37%	7%
Port Pirie	712	652	550	652	604	-7%	-4%
Thevenard	2,000	2,151	3,032	2,828	2,046	-28%	1%
Wallaroo	587	410	910	953	761	-20%	7%
Port Giles	327	324	880	1,014	719	-29%	22%
All Ports	14,779	15,445	21,024	24,114	21,190	-12%	9%

Source: Flinders Ports

Table 3-3 presents the total number of containers handled at Port Adelaide between 2008/09 and 2012/13. It shows that Port Adelaide maintained consistent growth in container trade over this period, with a four-year CAGR of 9%. The total number of containerised goods handled by Port Adelaide in 2012/13 grew by 5%, slightly below the four-year CAGR.

Table 3-3: Total number of containerised goods⁶ handled by Port Adelaide

	2008/09	2009/10	2010/11	2011/12	2012/13	2012/13 CHANGE	4-YEAR CAGR
Port Adelaide	190,266	208,331	230,196	255,242	268,499	5%	9%

Source: Flinders Ports

3.3 Port Adelaide

Port Adelaide is South Australia's largest ports facility, consisting of the Inner Harbour and Outer Harbor, complete with 20 wharves, including the container terminal operated by DP World Adelaide under a licensing agreement with Flinders Ports (refer to Figure 3-3). Principal commodities handled at Port Adelaide include grains, petroleum products, containers, motor vehicles, mineral sands and livestock.

Port Adelaide is the only South Australian ports facility that is able to handle significant amounts of container trade and, therefore, accounts for the majority of the tonnage in South Australia. In 2012/13, Port Adelaide accounted for 72% of total tonnage across all regulated ports.

⁶ Twenty-foot Equivalent Units (TEU), excluding empty containers.

Whilst Port Adelaide accounts for the majority of the cargoes handled in South Australia, it is still considered small when compared to other major Australian ports.

In response to the relatively strong growth in container trade, Flinders Ports has informed the Commission that it has undertaken a number of initiatives in recent years to improve Port Adelaide's competitiveness in the international freight movement and logistics market, and to allow the port to remain competitive relative to other interstate ports (e.g. Port of Melbourne).

The Commission understands the ongoing development of ports facilities at Port Adelaide is a major component of Flinders Ports' 'master plan' for the port, to enable it to cater for the long-term needs of container trade and growth of different industry sectors. Flinders Ports has informed the Commission of several developing/completed investments associated with the master plan, including the recent completion of an intermodal rail, and new storage facilities.

Flinders Ports has also stated that the ongoing development of Berth 29 at Port Adelaide has contributed to increased trade volumes, and diversity of products, particularly from the mining sector.

Flinders Ports has identified a number of future challenges for Port Adelaide, including the increasing use of larger and wider container vessels, as well as meeting higher environmental standards. Future plans to deal with these challenges include:

- ▲ consideration/planning of longer term channel upgrades;
- ▲ extension planning to container terminal;
- ▲ acquisition of a new Gottwald crane;
- ▲ continued investment in storm water catchment and treatment facilities; and
- ▲ upgrades to wharves.

Flinders Ports has advised that the redevelopment of Berth 4 at Outer Harbor will allow it to accommodate fuel vessels, establishing an alternative facility for the unloading of fuel. It suggests that this may alleviate concerns in relation to ongoing fuel delivery to the State, given previous reliance on a single point facility.

Figure 3-3: Port Adelaide



Source: Flinders Ports

4. OPERATOR REGULATORY ACCOUNTS

In its *2012 Ports Pricing and Access Review Final Report (2012 Review)*, the Commission noted that it had received a submission to its Draft Report raising concern over the Commission's current 'ring-fencing' arrangements. The submission was received from Asciano Limited (**Asciano**), who expressed concern regarding the potential for Flinders Ports to exhibit anti-competitive cost-shifting and cross-subsidisation behaviour between its non-contestable and contestable services.⁷ Asciano recommended that regulatory account information be subject to independent audit.

The Commission notes that its Ports Industry Guideline No. 2⁸ (**Guideline**) already specifies the manner in which costs are to be allocated, and sets out disclosure requirements for all third-party transactions, in order to prevent practices such as cost-shifting between the contestable and non-contestable businesses. The Guideline sets out requirements for a regulated operator to provide Regulatory Account Reports (**Regulatory Accounts**) to the Commission; these reports must be accompanied by a director's responsibility statement and regulatory audit report.

Following Asciano's concerns, in its 2012 Review, the Commission stated that it would undertake an independent regulatory review in 2013/14, to provide an additional level of assurance that the ring-fencing principles set out in the Guideline are being correctly applied, and the desired outcome achieved.

In July 2013, the Commission engaged BDO Audit (SA) Pty Ltd (**BDO**) to perform an independent review of the Regulatory Accounts of Flinders Ports and Viterra for 2010/11 and 2011/12. The primary objective of the Review was to review the extent to which the Regulatory Accounts prepared by Flinders Ports and Viterra for the 2011 and 2012 years complied with the Guideline. The Commission also sought advice on whether or not changes should be made to the Guideline.

BDO outlined its approach to performing the review in its *Review of Ports Regulatory Accounts Final Report (Final Report)*.⁹ BDO found no matters of concern with the calculation or application of causal allocations in the Regulatory Accounts of Flinders Ports or Viterra. Further, BDO's procedures did not identify any areas of non-compliance with the guideline by Flinders Ports or Viterra. BDO also stated that its procedures did not identify any ambiguity in the guideline that may lead to non-compliance.

However, BDO did note some potential areas in the Guideline that the Commission could further elaborate on, such as the potential to provide further commentary around

⁷ Asciano, *Submission to ESCOSA 2012 Ports Pricing and Access Review Draft Decision*, July 2012; available at: http://www.escosa.sa.gov.au/library/120720-2012_PortsPricing_AccessReviewDraftDecisionSubmission-Asciano.pdf

⁸ ESCOSA, *Ports Industry Guideline No. 2 Regulatory Accounts*, May 2010; available at: <http://www.escosa.sa.gov.au/library/100415-PortsGuidelineNo2-RegulatoryAccounts.pdf>

⁹ BDO Audit (SA) Pty Ltd, *Essential Services Commission of South Australia Review of Ports Regulatory Accounts*, August 2013; available at: http://www.escosa.sa.gov.au/library/130926-ReviewOfPortsRegulatoryAccounts-BDO_Report.pdf

disaggregation of base account records to assist regulated operators in their selection of the most appropriate drivers and allocation methods. The Commission will further consider these possible amendments as part of its next review of the Guideline.

Within its Final Report to the Commission, BDO included its review opinion as follows:

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Regulatory Reports are not prepared, in all material respects, in accordance with the requirements of the Ports Industry Guideline No. 2 – Regulatory Accounts issued by ESCOSA.¹⁰

This independent review of the regulatory accounts provided by both Flinders Ports and Viterro has provided an additional level of assurance that the ring-fencing principles set out in the Guideline are being applied correctly. The Commission is satisfied that the current arrangements, outlined in the Guideline, ensure that the appropriate information is being collected and reported.

¹⁰ BDO Audit (SA) Pty Ltd, *Essential Services Commission of South Australia Review of Ports Regulatory Accounts*, August 2013, page 4.

5. PORTS PRICES

5.1 General Increase in Flinders Ports' Prices

The 2012 Ports Price Determination requires ports operators to provide the Commission with a copy of the list of prices for the provision of EMS within 10 business days of the list of prices being set and published. As noted above, the MSA Act also requires ports operators to notify the Commission of any changes to Pilotage Service charges, and to make its schedule of current Pilotage Service charges publicly available. These requirements have the effect of improving price transparency.

In May 2013, Flinders Ports submitted to the Commission its 2013/14 ports prices.¹¹ The new schedule of prices shows that average prices for all services have increased by greater than the Adelaide March 2012 to March 2013 annual CPI figure of 2.2%. Flinders Ports has stated that the main drivers of the above-CPI increases are increased wage costs associated with each of the cost components of EMS and, to a lesser extent, the continued recovery of Navigational Service charges (refer to section 5.4).

On 24 November 2011, Fair Work Australia approved the *Flinders Ports Enterprise Agreement, 2011-2015 (EBA)*, to apply from 1 December 2011, with a nominal expiration date of 30 June 2015.¹² The outcome of the EBA requires Flinders Ports to apply an annual increase of 4.0% to wages of Flinders Ports' employees. On 19 October 2011, Fair Work Australia approved a similar agreement,¹³ applying a 4.0% wage increase to marine pilots employed by Flinders Ports.

Cargo and Harbour Service charges for 2013/14 have increased by 2.9% (nominal) on average, due to the higher wage costs. Pilotage Service charges increased by 3.8% (nominal) and Navigational Service charges experienced a 3.2% (nominal) rise in 2013/14. The methodology employed by Flinders Ports in determining these above-CPI increases is discussed further in the remaining sections of this chapter.

As discussed in chapter 2, the ports price regulatory regime is underpinned by a negotiate-arbitrate framework, where ports operators and ports users may negotiate and reach agreement for the provision of EMS and/or Pilotage Services at a price that differs from that published in the ports price schedule. The price increases outlined above may, therefore, not be reflective of the actual prices paid by ports users.

The key focus for the Commission in the monitoring of ports prices is determining whether or not any above-CPI price increase is *appropriately justified* and is not as a *consequence of market power being exercised by the ports operator*. In support of the above-CPI increase in

¹¹ The 2013/14 ports prices are available on Flinders Ports' website at:
<http://www.flindersports.com.au/portcharges1.html>

¹² Fair Work Australia, *Flinders Ports Enterprise Agreement, 2011-15*, 24 November; available at:
<http://www.fwc.gov.au/documents/agreements/fwa/AE889550.pdf>

¹³ Fair Work Australia, *Flinders Ports Marine Pilots Agreement 2011-2014*, October 2011; available at:
<http://www.fwc.gov.au/documents/agreements/fwa/AE888942.pdf>

all service prices under its 2013/14 ports price schedule, Flinders Ports has provided the Commission with information to justify the real price increase. This is further discussed in the remaining sections of this chapter.

Price increases cannot be considered in isolation, and appropriate consideration should be given to longer-term infrastructure requirements. In that context, the pricing framework should aim to balance the need to fund investment in ports infrastructure to meet longer-term requirements, while minimising price shocks, where possible. It is, therefore, necessary for the Commission, in monitoring price movements over time, to have regard to other factors that may have an impact on ports prices.

Table 5-1 shows a sample of Flinders Ports' 2013/14 ports prices compared to 2012/13 prices.

Table 5-1: Flinders Ports' 2012/13 & 2013/14 pricing schedule comparison

SERVICES	12/13 PRICES INC GST	13/14 PRICES INC GST	NOMINAL % INCREASE
<i>Cargo Service Charges</i>			
Bulk Cargo - Salt (\$/tonne)	1.727	1.782	3.18%
Bulk Cargo - Grain (\$/tonne)	2.123	2.189	3.11%
Non-Containerised Cargo - Live Sheep (\$/each)	0.32637	0.33583	2.90%
Containerised Cargo - 20' Container (\$/container)	79.2	81.51	2.92%
<i>Harbour Service Charges (includes mooring)</i>			
Port Adelaide - Base Charge (\$ per ship visit)	3837.922	3949.22	2.90%
Port Adelaide - Variable Charge (\$ per GRT ¹⁴ per hour at berth)	0.00627	0.00649	3.51%
Other Ports - Base Charge (\$ per ship visit)	3299.142	3394.82	2.90%
Other Ports - Variable Charge (\$ per GRT per hour at berth)	0.00605	0.00627	3.64%
<i>Navigation Service Charges</i>			
All Ports - Base Charge (\$ per ship visit)	1237.236	1276.825	3.20%
All Ports - Variable Charge (\$ per GRT per hour)	0.13662	0.14102	3.22%
<i>Pilotage Charges</i>			
All Ports			
A - Boarding Station or Anchorage to or from Berth	2845.205	2953.324	3.80%
B - Boarding Station to or from Anchorage	1835.152	1904.892	3.80%
C - Removal from one Berth to another in a harbour and warping along a wharf by a pilot in attendance	1529.286	1587.399	3.80%

Figure 5-1 shows that, since 2005/06, ports prices for EMS in South Australia have generally reflected CPI movements. As can be seen, Adelaide's CPI has increased by approximately 27% from 2005/06 to 2013/14, and non-weighted average EMS prices have nominally increased by around 30% over the same period.

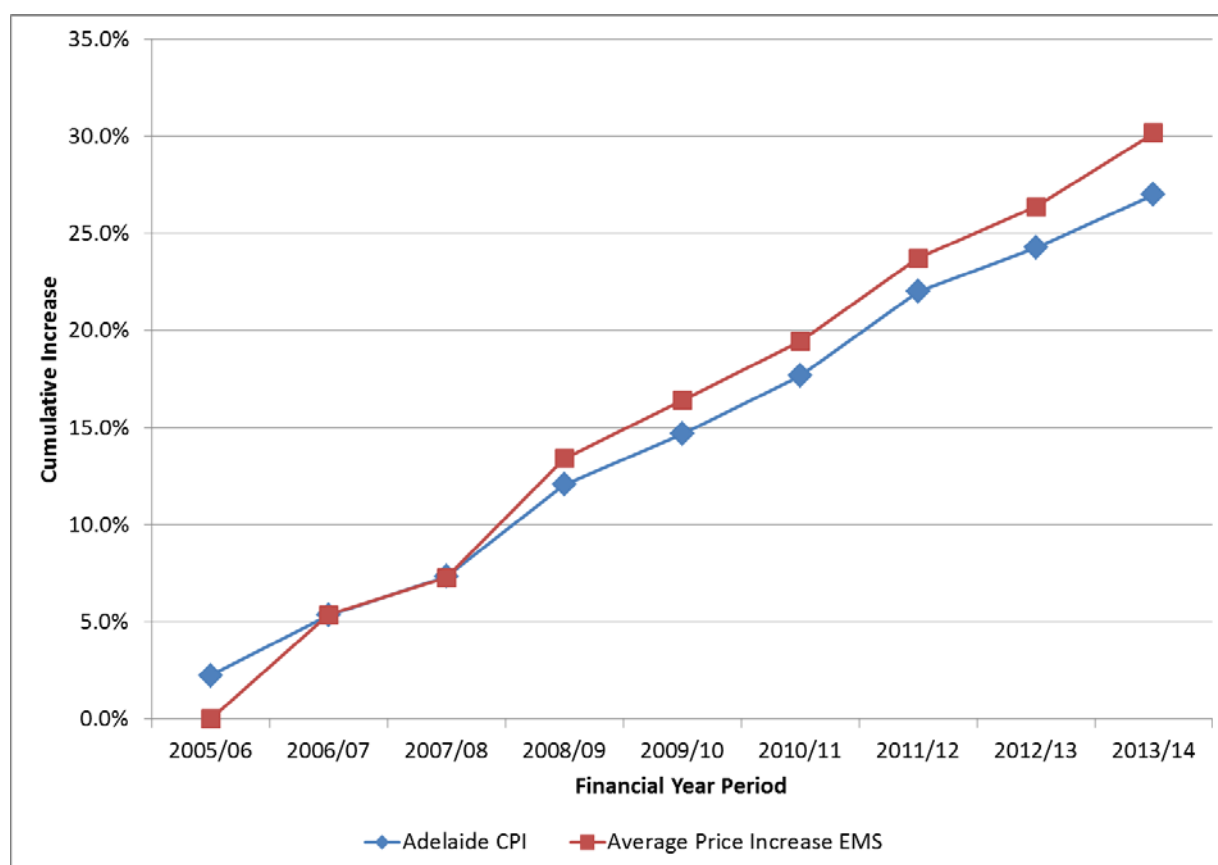
¹⁴ GRT refers to Gross Registered Tonnage, a weight measurement of the ship.

Some EMS prices have increased by more than CPI in certain years. For example, in 2008/09, ports prices increased above CPI primarily due to a 10% increase in specific Cargo Service charges (containers only) as a result of \$21m being spent on extending and strengthening existing berths at Port Adelaide.

In 2009/10, a real increase of around 1% was applied to average Cargo Service charges, to enable Flinders Ports to recover the additional expenditure incurred as a result of implementing enhanced security measures in order to comply with new obligations incorporated within the *Maritime Transportation Security Act 2003 (Cth)*.

The nature of these obligations and additional expenditure was discussed in the Commission's 2009 Ports Price Monitoring Report.¹⁵

Figure 5-1: Movement of cumulative average EMS prices relative to 2005/06



Source: Flinders Ports and ABS CPI data

There have also been instances through the past eight years in which Flinders Ports has either made no price adjustment, or lower than CPI price adjustments. For example, Flinders Ports made no price adjustment in 2005/06 and a below-CPI adjustment was made to prices in 2011/12.

¹⁵ Refer to section 4.2 of the 2009 Ports Price Monitoring Report, available on the Commission's website at: <http://www.escosa.sa.gov.au/Publications/DownloadPublication.aspx?id=1664>

Sections 5.2 to 5.4 detail the prices within EMS and Pilotage Services.

5.2 *Cargo and Harbour Service Charges*

Cargo and Harbour Service charges encompass the ports prices associated with the general operations of the port. Cargo Service charges are generally applied to a port user based on the volume of cargo loaded or discharged in the port, as well as fees charged to stevedores for the temporary occupancy of the land behind the berth. Harbour Service charges are generally levied against a ship when it is alongside a berth/wharf. Harbour Service charges often comprise a flat base rate, as well as a charge based on the size of the ship and duration of berth occupancy.

As noted in section 5.1, Cargo and Harbour Service charges have increased on average by 2.9% for 2013/14; a 0.7% increase above the Adelaide March 2012 to March 2013 CPI figure of 2.2%. Flinders Ports has justified the above-CPI increase as the result of the EBA affecting the labour related costs associated with the provision of Cargo and Harbour Services.

Flinders Ports has outlined to the Commission its methodology for determining the above-CPI increase in Cargo and Harbour Service charges.

First, Flinders Ports split the costs of these services into their current operating cost bases, with 40% related to labour, and 60% attributed to general operating costs. The Adelaide March 2012 to March 2013 CPI increase of 2.2% was then applied to the general operating costs, and the 4.0% wage increase (as a result of the EBA) was applied to labour related costs.

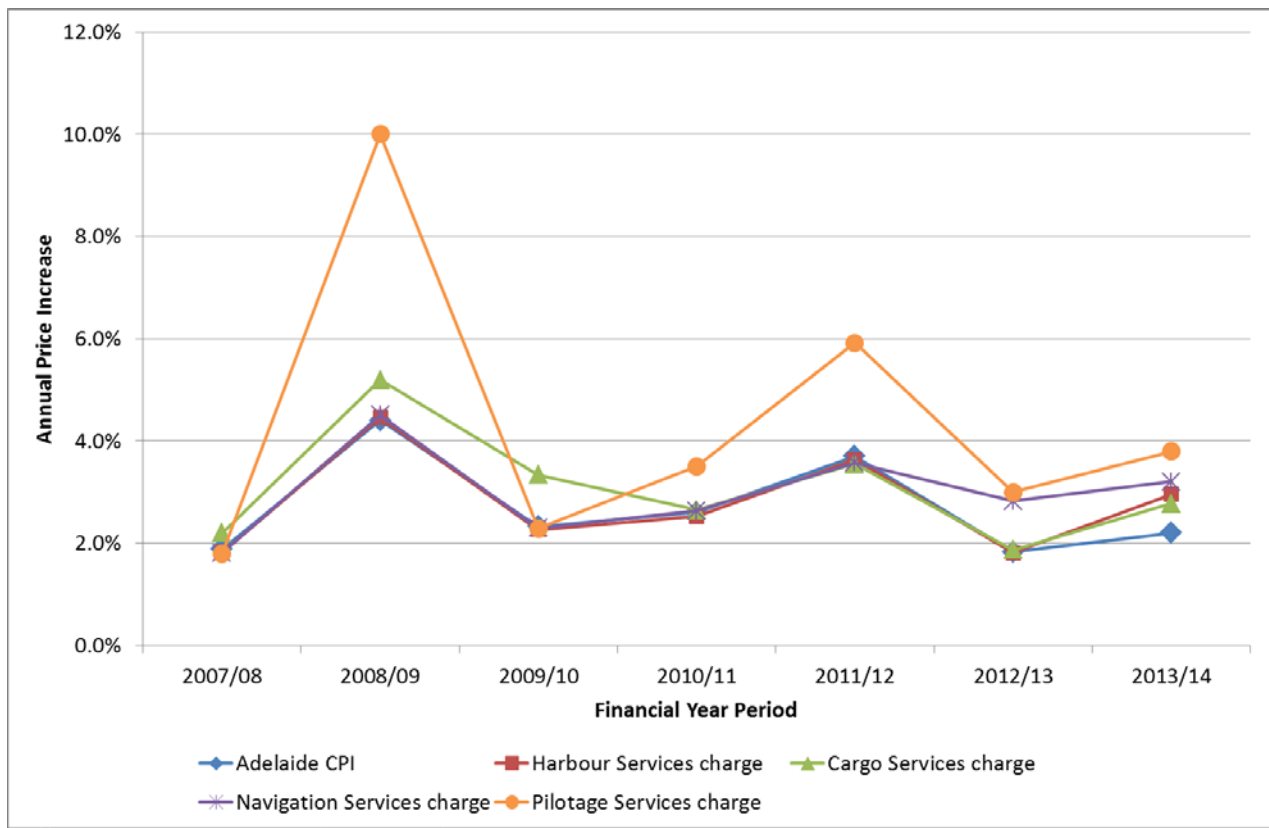
Flinders Ports then calculated a general increase in Cargo and Harbour Service charges based on a weighted average increase to prices based on the above cost base splits:

$$((4.0\% \times 40\%) = 1.6\%) + ((2.2\% \times 60\%) = 1.3\%) = 2.9\%$$

The Commission notes the 2013/14 is the first year in which Flinders Ports has sought to recoup the 4.0% wage increase from Cargo and Harbour Service charges as a result of the current EBA, which has operated since October 2011.

Figure 5-2 shows that, since 2007/08, Harbour Service charges have increased at the same rate as the Adelaide CPI, until this year, when prices increased above the CPI figure. Cargo Service charges have generally followed a similar trend except in 2008/09 and 2009/10 where real price increases were applied to Cargo Service charges as explained in section 5.1.

Figure 5-2: Flinders Ports annual Service Charges Increases



Source: Flinders Ports

Flinders Ports has provided assurances to the Commission that ports users were consulted prior to the 2013/14 increases in ports prices, and that no concerns were raised. Similarly, no concerns have been raised with the Commission over these increases in ports prices.

Based on the information provided by Flinders Ports, the Commission considers that the price movements for Cargo and Harbour Service charges are reasonably justified.

5.3 Pilotage Service Charges

Pilotage Service charges are developed to cover the costs associated with piloting a ship through the waterways that lead to a port – for reasons relating to both the protection of ports infrastructure, and to ensure the safety of the ships. These prices are fixed with reference to the distance of pilotage. Flinders Ports is presently the only supplier of Pilotage Services at South Australian proclaimed ports.

There are various of factors that can influence Pilotage costs, including, but not limited to:

- ▲ pilotage distance;
- ▲ salaries of pilots and boat crew;
- ▲ navigation hazards; and

- ▲ number of vessel calls.

As noted in section 5.1, all of Flinders Ports Pilotage Service charges have increase on average by 3.8% for 2013/14. This is a 1.6% increase above the Adelaide March 2012 to March 2013 CPI figure of 2.2%, and is driven by EBA related wage increases flowing through to the cost of providing Pilotage services.

Flinders Ports has provided the Commission with cost information relating to the provision of Pilotage Services. The information shows that salaries and on-costs for pilots and the launch crew continue to account for the bulk of the incurred costs (approximately 90%), with operating costs (maintenance and fuel) making up the balance.

Flinders Ports applied the EBA approved increase of 4.0% to its Pilots and launch crew wages. It applied the Adelaide March 2012 to March 2013 CPI rate of 2.2% to the remaining cost components (consisting of operating costs only; there was no Pilotage capital expenditures in 2013/14) of Pilotage Services.

As stated previously, Flinders Ports has provided assurances to the Commission that ports users were consulted prior to the increases in Pilotage Service charges and that no concerns were raised. Similarly, no concerns have been raised with the Commission over these increases in Pilotage Service charges.

The Commission notes that above-CPI increases in Pilotage Service charges have occurred at other major ports across Australia in 2013/14. Table 5-2 shows the change in Pilotage Service charges across Australia compared to each city's March 2012 to March 2013 CPI figure. This illustrates that Flinders Ports has increased Pilotage Service charges broadly in line with other ports in 2013/14.

Table 5-2: Change in Pilotage Service charges around Australia – 2012/13 to 2013/14

	PILOTAGE PRICE CHANGE	CPI CHANGE ¹⁶	DIFFERENCE
Flinders Ports	3.8%	2.2%	1.6%
Sydney Ports ¹⁷	2.5%	2.8%	-0.3%
Port of Melbourne ¹⁸	3%	2.5%	0.5%
Port of Brisbane ¹⁹	4%	2.1%	1.9%
Fremantle Ports ²⁰	5%	2.4%	2.6%

5.4 Navigational Service Charges

Navigational Service charges are levied on a ship upon entry to the port. Navigational Services include the provision of navigational aids, maritime access channels, and port traffic control. The charges generally include a base fee, as well as a charge based on ship size.

Navigational Service charges increased by 3.2% in 2013/14; this is a 1% real increase, primarily due to the introduction of a new Vessel Tracking System (**VTS**). In the information provided to the Commission, Flinders Ports defined its VTS as:

*A service implemented by a competent authority, designed to improve the safety and efficiency of vessel traffic and protect the marine environment. The service should have the capability to interact with traffic and respond to traffic situations developing in the VTS area.*²¹

As noted by the Commission in its 2012 Review, the introduction of the VTS is expected to improve both the overall efficiency, and safety, of navigational operations at the ports.²²

In 2012, Flinders Ports proposed that the additional costs associated with implementing the VTS be recovered through an increase to its base Navigational Service charges. Flinders Ports

¹⁶ The ABS 6401.0 – Consumer Price Index at March 2013 (annual) was used. The CPI figure for each capital city was used for the comparison of Pilotage Service charges.

¹⁷ Sydney Ports increased its Pilotage charges by 2.5% based on the ABS December 2012 CPI figure.

¹⁸ Pilotage Services at the Port of Melbourne are provided by Port Phillip Sea Pilots Pty Ltd (PPSP). PPSP informed the Commission of the increase in Pilotage charges in the 2013 financial year.

¹⁹ Maritime Safety Queensland sets the Pilotage charges for all ports in Queensland. More information on the July 2013 Queensland Pilotage charge increase can be found at: <http://www.msq.qld.gov.au/About-us/MSQ-headlines/Port-pilotage-fees.aspx>

²⁰ The Commission has analysed the changes in Fremantle Ports' 2012/13 and 2013/14 prices.

²¹ Flinders Ports letter to the Commission Re: Schedule of Charges – 1 July 2013.

²² ESCOSA, *2012 Ports Pricing and Access Review – Final Report*, October 2012, page 10; available at: <http://www.escosa.sa.gov.au/projects/172/2012-ports-pricing-and-access-review.aspx>

has stated its intention that an additional increase in Navigational Service charges of 1% is to be applied annually, until such time as the overall increased income “catches up” with the on-going additional costs of implementation. As illustrated in Figure 5-2, Navigational Service charges have generally increased in line with CPI between 2007/08 and 2012/13.

In consideration of the above matters, the Commission believes that, with respect to its monitoring role, the above-CPI increase for Navigational Service charges is sufficiently justified.

5.5 Other Jurisdictions

In satisfying itself that Flinders Ports’ prices are sufficiently justified, the Commission has also examined the prices charges for ports services in other Australian jurisdictions. The magnitude of price adjustments that took effect from 1 July 2013 varies across major interstate ports as follows:

- ▲ Sydney Ports Corporation (**Sydney Ports**) applied a Sydney December 2012 CPI increase to its Pilotage and Navigation Service charges of 2.5%;²³ this increase is below the Sydney March 2012 to March 2013 CPI figure of 2.8%.
- ▲ Port of Melbourne Corporation’s (**Port of Melbourne**) schedule of prices has generally increased by 5.2% overall,²⁴ a 3% increase above the Melbourne March 2012 to March 2013 CPI rate of 2.2%.
- ▲ Port of Brisbane Pty Ltd (**Port of Brisbane**) increased overall prices by 2.5%,²⁵ a 0.4% increase above Brisbane March 2012 to March 2013 CPI of 2.1%.
- ▲ Fremantle Ports increased overall prices by 5%;²⁶ this is a 2.6% increase above Perth March 2012 to March 2013 CPI of 2.4%.

²³ Refer to Sydney Ports media release: *Amendments to Sydney Ports Charges*, May 2013; available at: http://www.sydneyports.com.au/_data/assets/pdf_file/0012/29010/Amendments_to_Sydney_Ports_Charges_-_1_May_2013.pdf

²⁴ Refer to Port of Melbourne media release: *Port releases 2013-14 tariff schedule*, May 2013; available at: <http://www.portofmelbourne.com.au/media/current-media-releases/2013/may/reference-tariff-schedule>

²⁵ Personal communication between the Commission and Port of Brisbane

²⁶ The Commission has analysed the change in Fremantle Ports’ 2012 and 2013 prices.

6. LOOKING FORWARD

The Commission will continue to publish annual ports price monitoring reports throughout the remainder of the current regulatory period, and will also continue to monitor the effectiveness of its ports price monitoring approach.

The Commission notes that there have been no pricing disputes within the current regulatory period. Price movements over time have generally mirrored CPI increases and, in the limited situations where certain EMS prices have increased by more than CPI, the Commission has not found any evidence to indicate a potential misuse of market power.

The Commission welcomes any comments in relation to the issues discussed in this report, to assist it in its ongoing monitoring of port prices in South Australia.



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