



Ports

# 2016 Ports Price Monitoring Report

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## Glossary of terms

Term	Description
Commission	Essential Services Commission, established under the Essential Services Commission Act 2002
CAGR	Compound Annual Growth Rate
CPI	Adelaide Consumer Price Index
EBA	Enterprise Bargaining Agreement
EMS	Essential Maritime Services
ESC Act	Essential Services Commission Act 2002
Flinders Ports	Flinders Ports Pty Ltd
Report	2016 Ports Price Monitoring Report
MSA Act	Maritime Services (Access) Act 2000
Review	2017 Ports Pricing and Access Review
VTS	Vessel Tracking System

## Executive summary

The Essential Services Commission (**Commission**) publishes annual ports price monitoring reports, commenting on factors underpinning price movements, to provide ports users with information on ports charges at regulated ports. In addition, these reports form part of the evidence base for the next five-yearly Ports Pricing and Access Review in 2017. The information in this report will assist the Commission in its consideration of the ongoing application of the Ports Pricing and Access Regime from October 2017.

This is the fourth annual Ports Price Monitoring Report (**Report**) published by the Commission following its 2012 Ports Price Determination,<sup>1</sup> and reports on ports charges set by Flinders Ports Pty Ltd (**Flinders Ports**) to apply during 2016-17.

Under the Maritime Services (Access) Act 2000 (**MSA Act**), the Commission has pricing and access regulatory functions for the six proclaimed ports in South Australia. Price regulation applies to Essential Maritime Services (**EMS**): Cargo, Harbour and Navigational Services. In addition, the MSA Act establishes a separate price monitoring regime for Pilotage Services. Access regulation applies to a similar, but not identical, set of services known as 'Regulated Services'.

While Flinders Ports is allowed to adjust its prices for services that are subject to price regulation, it may also negotiate with ports users to reach agreement for the provision of EMS and/or Pilotage Services based on prices that differ from those published in its price schedule. However, it does so in the context of the Commission monitoring those prices, publicly reporting on them and using the data in future ports pricing reviews. The price increases discussed in this Report may therefore not be reflective of the actual prices paid by all ports users.

In monitoring ports charges, the Commission evaluates Flinders Ports' price increases against changes in the Adelaide Consumer Price Index (**CPI**), with the requirement that Flinders Ports must provide to the Commission reasons to explain any rise in prices above the increase in the CPI.<sup>2</sup>

Table 1 shows that average prices for EMS and Pilotage Services have both increased by more than the increase in CPI.

Table 1: Port service charges<sup>a</sup> – changes and comparisons with CPI (0.7%)<sup>b</sup>

Port Service	Average price increase	Difference over CPI
Cargo (EMS)	0.9%	0.2%
Harbour (EMS)	2.7%	2.0%
Navigational (EMS)	1.9%	1.2%
Pilotage	4.5%	3.8%

<sup>a</sup> The charges presented in this table are aggregated groupings of a number of other charges. The full list of ports charges can be found on Flinders Ports' website: <http://www.flindersports.com.au/portcharges1.html>.

<sup>b</sup> Adelaide March 2015 to March 2016 annual CPI increase was 0.7 percent.

For EMS, Flinders Ports has advised that the key drivers underpinning the above-CPI price increases were increased wage costs for all services and the continued recovery of costs associated with the introduction of a Vessel Tracking System (**VTS**) through Navigational Service charges. The magnitude

<sup>1</sup> In 2012 the Commission reviewed whether or not the ports pricing and access regimes under the MSA Act should continue. This review concluded that a Price Monitoring Regime and Third-party Access Regime should continue until at least 2017, when another review will be conducted.

<sup>2</sup> For the purposes of this report, the Commission has used the Adelaide March 2015 to March 2016 All Groups CPI of 0.7 percent as published by the Australian Bureau of Statistics (catalogue number 6401.0) for comparison.

of the price increase for Cargo Services is lower than that for Harbour Services and Navigational Services, as labour costs make up a smaller proportion of the cost base.

For Pilotage Services, Flinders Ports has advised that the key drivers underpinning the above-CPI price increase were increased wage costs and depreciation charges (associated with Flinders Ports' acquisition of two new pilot vessels). Together, these two cost components contributed four percent to the overall 4.5 percent increase in Pilotage Service charges from 1 July 2016.

Flinders Ports has advised the Commission that ports users were consulted prior to the implementation of the 2016-17 price increases, and that no concerns relating to these prices were raised. In addition, no concerns have been raised with the Commission over price increases following their publication by Flinders Ports. However, the Commission will consider ports users views on port services costs as part of a forthcoming review (see below).

On 30 September 2016, the Commission initiated its 2017 Ports Pricing and Access Review (**Review**) with the release of an Issues Paper.<sup>3</sup> The Review will consider the following questions:

- ▶ Should the Ports Access Regime continue for a further five-year period from 31 October 2017?
- ▶ Should the Ports Price Regulation Regime for EMS continue for a further five-year period from 31 October 2017? If it is to continue, what form of price regulation should be adopted?
- ▶ If the regimes are to continue, are there any areas where they can be improved to better promote competition in related markets or make regulation more effective and efficient generally?

In considering those questions, the Commission will examine the reasons for ports price changes during the 2012-2017 period and, in particular, whether or not there is evidence of the misuse of market power.

The Commission welcomes any comments in relation to the Review. Further information concerning the Review and how stakeholders make a submission to the Review can be found at [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au).

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<sup>3</sup> The Commission's *2017 Ports Pricing and Access Review - Issues Paper*, 30 September 2016, available at: <http://www.escosa.sa.gov.au/projects-and-publications/projects/ports/ports-pricing-and-access-review-2017>.

# 1 Introduction

The Essential Services Commission (**Commission**), established under the Essential Services Commission Act 2002 (**ESC Act**), is the economic regulator of proclaimed 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**).

## 1.1 Ports Price Regulatory Regime

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

- ▶ Port Adelaide
- ▶ Port Giles
- ▶ Wallaroo
- ▶ Port Pirie
- ▶ Port Lincoln, and
- ▶ Thevenard.

The MSA Act establishes:

- ▶ that price regulation applies only to certain infrastructure services, referred to as Essential Maritime Services (**EMS**), and defined as:
  - vessel access to a proclaimed port
  - port facilities for loading or unloading vessels at a proclaimed port, or
  - vessel berthing at a proclaimed port.
- ▶ a separate price monitoring regime for Pilotage Services, and
- ▶ that access regulation applies to a similar, but not identical, set of services known as 'Regulated Services'. In addition to the services mentioned above, access regulation applies to bulk loader services at the six proclaimed ports, currently provided by Viterra Limited.

The regulatory regime is summarised in Figure 1-1 below.

### 1.1.1 Essential Maritime Services

Three categories of charges, in aggregate, cover the suite of EMS:

- ▶ **Navigation Service charges** – levied to recover costs associated with the provision of navigational aids, maritime access channels, and port traffic control. The charges are levied on a ship upon entry to the port and generally include a base fee, as well as a charge based on ship size.
- ▶ **Harbour Service and Mooring charges** – levied to recover costs associated with the general operations of the port. These charges are levied against a ship, based on its size and duration of berth occupancy.
- ▶ **Cargo Service charges** – levied to recover costs associated with the general operations of the port. These charges are generally levied based on the volume of cargo loaded or discharged at the port, as well as fees charged to stevedores for the temporary occupancy of the land behind the berth.

There are varying terms applying to the same services in ports around Australia. 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).

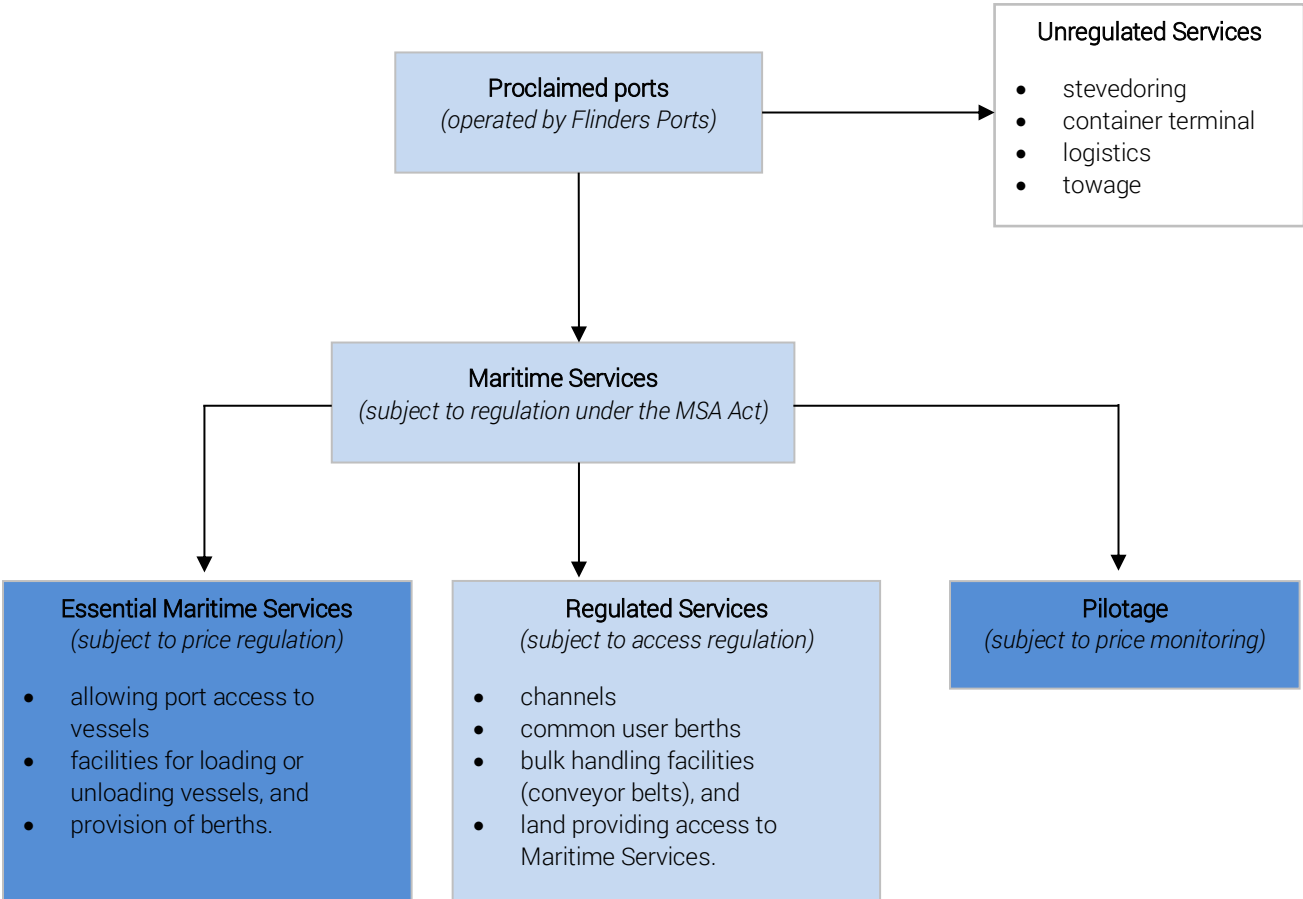
The operator of a proclaimed port must provide the Commission with a copy of the list of prices for the provision of EMS, and make those prices publicly available.

**1.1.2 Pilotage Services**

Pilotage Services involve piloting a ship through the waterways that lead to a port to protect port infrastructure and ensure the safety of the vessels. Flinders Ports is presently the only supplier of Pilotage Services at South Australia’s proclaimed ports.

The operator of a proclaimed port must maintain a schedule of Pilotage Service charges and provide the Commission with a current schedule and notice of any proposed changes to prices.

Figure 1-1: Economic regulation of proclaimed ports (operated by Flinders Ports)





## 1.2 Ports Price Monitoring methodology

In October 2012, the Commission released a Ports Pricing and Access Review Final Report and a Ports Price Determination, which established price monitoring as a targeted proportionate regulatory approach.<sup>4</sup> The regulatory regime allows the ports operator to set EMS prices, but it does so in the context of the Commission monitoring those prices, publicly reporting on them and using the data in future ports pricing reviews.

The Commission publishes annual ports price monitoring reports to provide information on prices and commentary on factors underpinning price movements. The purpose of these reports is to provide ports users with information on ports charges. The reports compare Flinders Ports' price increases against changes in Adelaide Consumer Price Index (CPI), and if the increases in ports charges exceed the change in the CPI, Flinders Ports is required to provide information to the Commission to explain those increases.

Annual ports price monitoring reports published by the Commission are not intended to reach any conclusions on whether or not market power has been misused. Rather, these reports form part of the evidence base for the five-yearly ports pricing reviews which may contemplate, if necessary, implementing a more prescriptive form of price regulation.

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<sup>4</sup> The Commission's *2007 Ports Pricing and Access Review – Final Report*, 31 October 2007, available at: <http://www.escosa.sa.gov.au/projects/172/2012-ports-pricing-and-access-review.aspx>.

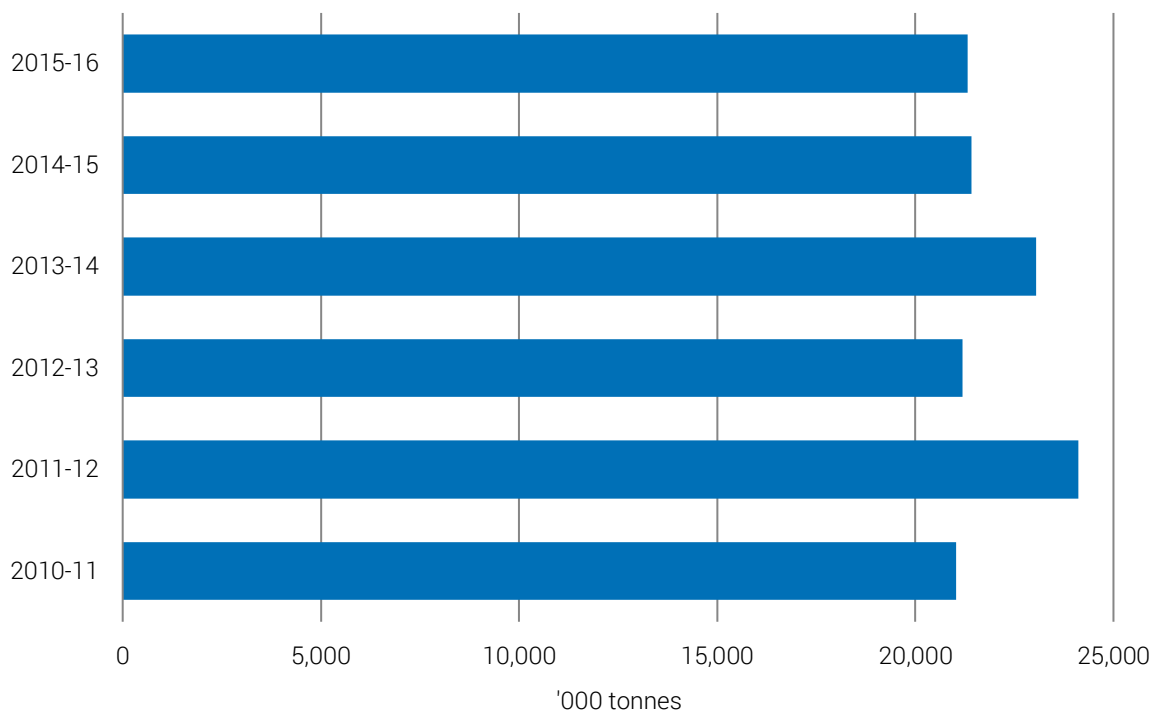
## 2 Ports statistics

Ports provide essential interfaces between land and maritime transport. This chapter provides a high-level summary of activities at South Australian proclaimed ports and gives relevant context to the ports price changes described in chapter 3.

### 2.1 Cargo throughput

Cargo throughput (total import and export tonnage) is a key driver of port activities. Figure 2-1 summarises cargo throughput tonnages for all regulated ports operated by Flinders Ports over the past six years.

Figure 2-1: Total annual cargo throughput



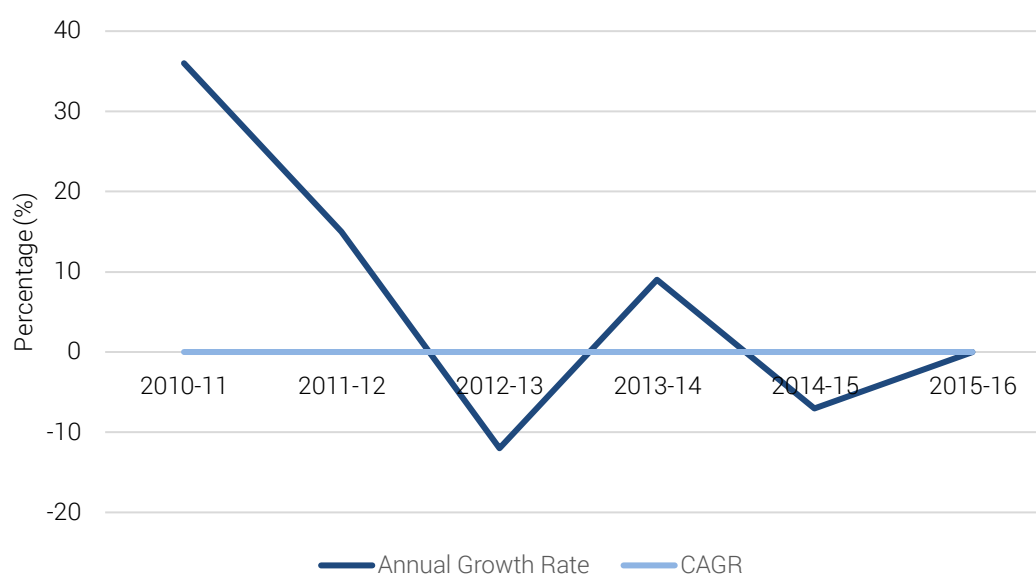
Source: Flinders Ports

Because there are many factors that cause short-term fluctuations in trade volumes (for example, the impact of drought conditions leading to lower grain export volumes), it is important to examine the longer-term trends in trade volumes and the significance of those trends for the ports industry.

Figure 2-2 compares the annual rate of change and the Compound Annual Growth Rate (CAGR) of cargo throughput tonnage at all regulated ports.<sup>5</sup> Total cargo throughput growth in 2015-16 was equal to the six-year CAGR of -0.2 percent.

<sup>5</sup> The CAGR is the annualised constant growth rate over a time period. Because it provides a 'smoothed' growth rate, it is often used to compare annual performance, where results differ from year to year. The CAGR is used by the Commission for the purpose of its ports price monitoring.

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



Source: Flinders Ports

## 2.2 Vessel calls

Port activity can also be measured in 'vessel calls' - the number of visits made by ships to a port.

Table 2 shows the number of vessel calls to each of the ports operated by Flinders Ports over the past six years. There were a total of 1,634 vessel calls in 2015-16, with almost 79 percent of those at Port Adelaide.

With the exception of Port Adelaide and Thevenard, all other ports experienced declines in the number of vessel calls in 2015-16 in comparison to the previous year. Over the past six years, Port Pirie recorded the highest annual growth rate in vessel calls at six percent (as measured by CAGR), albeit from a lower base.

Table 2: Vessel calls by port

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2015-16 change <sup>^</sup>	6-year CAGR
Port Adelaide	1,125	1,221	1,225	1,275	1,266	1,284	1%	2%
Port Giles	35	42	32	39	41	18	-56%	-10%
Port Lincoln	133	124	101	115	140	102	-27%	-4%
Port Pirie	54	63	57	77	85	78	-8%	6%
Thevenard	141	126	87	102	113	129	14%	-1%
Wallaroo	49	46	31	36	32	23	-28%	-12%
<b>All ports</b>	<b>1,537</b>	<b>1,622</b>	<b>1,533</b>	<b>1,644</b>	<b>1,677</b>	<b>1,634</b>	<b>2%</b>	<b>1%</b>

Source: Flinders Ports

<sup>^</sup> Indicates the change from the previous financial year.

## 2.3 Containerised goods

Port Adelaide is South Australia's largest port and is the only port in South Australia capable of handling containers. Table 3 presents the total number of containers handled at Port Adelaide over the past six years.

It shows that Port Adelaide maintained growth in container trade over this period, with a six-year CAGR of five percent. The total number of containerised goods handled at Port Adelaide increased by three percent in 2015-16.

Table 3: Total number of containerised goods<sup>6</sup> handled by Port Adelaide

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2015-16 change <sup>^</sup>	6-year CAGR
Port Adelaide	230,196	255,242	268,499	297,911	291,287	300,728	3%	5%

Source: Flinders Ports

<sup>^</sup> Indicates the change from the previous financial year.

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<sup>6</sup> Twenty-foot equivalent units, excluding empty containers.

## 3 Ports charges

### 3.1 General increase in Flinders Ports' charges

In June 2016, Flinders Ports submitted its 2016-17 ports charges to the Commission.<sup>7</sup> The price schedule (as summarised in Table 4) shows that average prices for EMS and Pilotage Services have both increased by greater than the Adelaide March 2015 to March 2016 increase in CPI of 0.7 percent.

Table 4: Average Increase in EMS Prices for 2016-17

Port Service	Average price increase	Difference over CPI
Cargo (EMS)	0.9%	0.2%
Harbour (EMS)	2.7%	2.0%
Navigational (EMS)	1.9%	1.2%
Pilotage	4.5%	3.8%

Flinders Ports has stated that the key drivers of the above-CPI increases in EMS and Pilotage Services were increased wage costs and the continued recovery of costs associated with the introduction of its Vessel Tracking System (VTS) through Navigational Service charges. Flinders Ports' reasoning for the real price increases of EMS and Pilotage Services is discussed in the remaining sections of this chapter.

Information provided by Flinders Ports indicates that many ports users are paying commercially negotiated charges. The standard price increases may therefore not be reflective of the actual prices paid by all ports users.

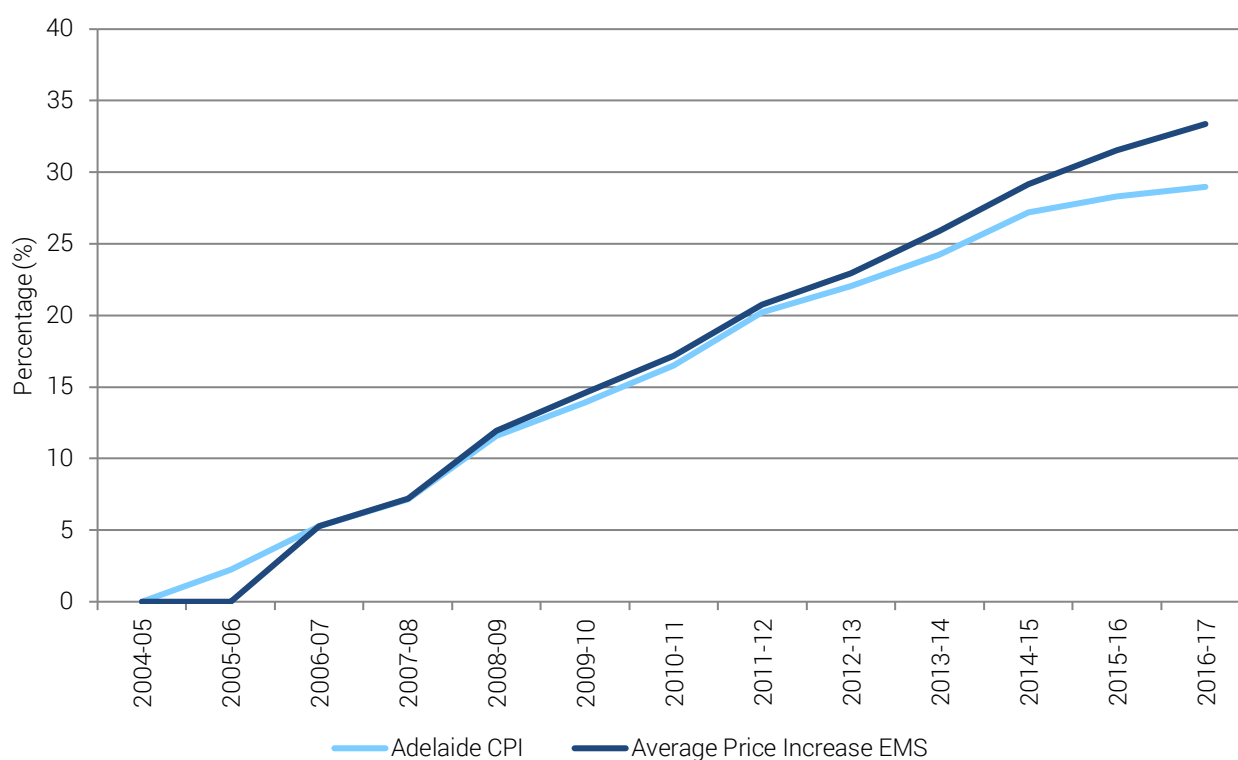
Figure 3-1 shows that CPI rose by 29 percent between 2004-05 and 2016-17, compared to the 33 percent increase in non-weighted average EMS prices. Average prices for EMS generally reflected CPI movements until 2011-12. Since then, prices have risen by above-CPI increases.

The Commission notes that since 2013-14, Flinders Ports has sought to pass through the full wage increases associated with its general Enterprise Bargaining Agreement (EBA) to its EMS charges.<sup>8</sup> CPI increases were applied to the wage component of its Cargo Services, Harbour Services and Navigational Services in 2011-12 and 2012-13.

<sup>7</sup> The 2016-17 ports prices are available on Flinders Ports' website at: <http://www.flindersports.com.au/portcharges1.html>.

<sup>8</sup> Flinders Ports has entered into separate EBAs relating to EMS and Pilotage Services. The EBA relating to EMS runs from 2015-2018 and provides for a wage increase of two percent. The EBA relating to Pilotage Services runs from 2014-2018 and provides for a wage increase of 3.5 percent.

Figure 3-1: Movement of cumulative average EMS prices relative to CPI (nominal)



Source: Flinders Ports and ABS CPI data

### 3.2 Cargo Service charges

Average Cargo Service charges increased by 0.9 percent in 2016-17 (a real increase of 0.2 percent from 2015-16). This increase is driven by the general EBA entered into between Flinders Ports and its operational staff which provides for a wage increase of two percent in 2016-17.

Labour costs make up approximately 15 percent of the costs associated with Cargo Services. A CPI increase was applied to the remaining 85 percent, which is made up of infrastructure-based costs.

### 3.3 Harbour Service charges

Average Harbour Service charges have increased by 2.7 percent in 2016-17 (a real increase of two percent). As with Cargo Service charges, the increase is largely driven by the general EBA. However, the key difference is that labour costs make up a larger proportion of the fixed cost component for Harbour Services (approximately 95 percent). A CPI increase was applied to the remaining five percent of the fixed cost component of Harbour Services.

A CPI increase was also applied to the variable cost component of Harbour Services.

### 3.4 Navigational Service charges

Average Navigational Service charges have increased by 1.9 percent in 2016-17 (a real increase of 1.2 percent). This increase is underpinned by two key drivers.

First, increased wages stemming from the EBA entered into between Flinders Ports and its operational staff, which provides for a wage increase of two percent in 2016-17. Labour costs make up approximately 20 percent of the total costs associated with Navigational Services.

A CPI increase was applied to the remaining 80 percent of costs, comprising of infrastructure-based costs and operating costs.

Second, an additional one percent increase was levied to recover costs associated with the VTS implementation. Flinders Ports has stated its intention to apply an annual one percent increase to Navigational Service charges, until the overall cost of the VTS implementation is recovered. These costs consist of approximately \$1.65 million in capital expenditure and approximately \$100,000 in annual operating costs (with a CPI increase applied annually).<sup>9</sup> Although Flinders Ports intends to recover these costs over a ten-year period, the recovery period may fluctuate depending on vessel numbers because Navigational Service charges are levied on a per vessel basis.

The Commission will assess VTS cost recovery as part of its Ports Pricing Review.

### 3.5 Pilotage Service charges

There are various factors that can influence Pilotage costs, including, but not limited to: pilotage distance, salaries of pilots and boat crew, navigational hazards and the number of vessel calls.

Pilotage Service charges have increased by 4.5 percent in 2016-17 (a real increase of 3.8 percent). This increase is underpinned by two key drivers.

First, increased wages as a result of the separate EBA entered into between Flinders Ports and its marine pilots and boat crew, which provides for an average wage increase of 3.5 percent in 2016-17. Labour costs make up approximately 80 percent of the total costs associated with Pilotage Services and contributed approximately 2.8 percent to the overall increase in Pilot Service charges.

Information published by the Australian Bureau of Statistics indicates that the South Australian March 2015 to March 2016 seasonally adjusted wage price index was 2.15 percent.<sup>10</sup> Flinders Ports previously advised that occupational specialisation is a key driver of the higher wage growth for marine pilots.

Second, above-CPI increases were also applied to some of the remaining cost components of Pilotage Services. In particular, the increase in depreciation charges associated with Flinders Ports' acquisition of two new pilot vessels and fuel costs contributed approximately 1.2 percent and 0.5 percent respectively to the overall increase in Pilotage Services charges.

As previously noted, Pilotage Services are subject to a price regulation regime that is different to that which applies to EMS. An operator of a proclaimed port is only required 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.

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<sup>9</sup> Expressed in June 2012 dollars.

<sup>10</sup> Refer to the Australian Bureau of Statistics (catalogue number 6345.0).

## 4 Next steps

The Commission will continue to publish annual ports price monitoring information throughout the remainder of the current regulatory period (due to expire on 30 October 2017).

On 30 September 2016, the Commission initiated a 2017 Ports Pricing and Access Review with the release of an Issues Paper.<sup>11</sup> The Review will consider the following questions:

- ▶ Should the ports access regime continue for a further five-year period from 31 October 2017?
- ▶ Should the ports price regulation regime for EMS continue for a further five-year period from 31 October 2017? If it is to continue, what form of price regulation should be adopted?
- ▶ If the regimes are to continue, are there any areas where they can be improved to better promote competition in related markets or make regulation more effective and efficient generally?

The Commission welcomes any comments in relation to the Review. Further information concerning the Review and how stakeholders can make a submission can be found at [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au).

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<sup>11</sup> The Commission's *2017 Ports Pricing and Access Review - Issues Paper*, 30 September 2016, available at: <http://www.escosa.sa.gov.au/projects-and-publications/projects/ports/ports-pricing-and-access-review-2017>.



