



Ports

2017 Ports Price Monitoring Report

Enquiries concerning this Report should be addressed to:

Essential Services Commission
GPO Box 2605
Adelaide SA 5001

Telephone: (08) 8463 4444
Freecall: 1800 633 592 (SA and mobiles only)
E-mail: escosa@escosa.sa.gov.au
Web: www.escosa.sa.gov.au

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Glossary of terms

| Term | Description |
|----------------|--|
| Commission | Essential Services Commission, established under the ESC Act |
| 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 | 2017 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 Commission in its consideration of the ongoing application of the Ports Pricing and Access Regime.

This is the fifth annual Ports Price Monitoring Report (**Report**) published by the Commission following its 2012 Ports Price Determination, and reports on ports charges set by Flinders Ports Pty Ltd (**Flinders Ports**) to apply during 2017-18.

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.

In monitoring ports charges, the Commission evaluates Flinders Ports' price increases against changes in the Adelaide Consumer Price Index (**CPI**). Flinders Ports must provide the Commission reasons to explain any rise in prices above the increase in the CPI.¹

Average prices for EMS and Pilotage Services have both increased by more than the increase in CPI (refer Table 1).

Table 1: 2017-18 Port service charges^a – changes and comparisons with 2016-17 CPI (2.0%)^b

| Port Service | Average price increase | Difference over CPI |
|-----------------------------|------------------------|---------------------|
| Cargo (EMS) | 2.2% | 0.2% |
| Harbour (EMS) | 2.2% | 0.2% |
| Navigational (EMS) | 3.3% | 1.3% |
| Pilotage | 4.1% | 2.1% |

^a 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>.

^b Adelaide March 2016 to March 2017 annual CPI increase was 2.0 percent.

The Commission has observed that there has been a widening of the gap between Adelaide CPI and the price increase in average EMS and Pilot Service charges since 2011-12. The Commission is monitoring this trend and will meet with Flinders Port before the end of this year to discuss this matter and seek further information on the price rises.

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.

For Pilotage Services, Flinders Ports has advised that the key drivers underpinning the above-CPI price increase were increased wage costs and capital costs (associated with Flinders Ports' construction of a further two new pilot vessels). Together, these two cost components contributed 3.8 percent points to the overall 4.1 percent increase in Pilotage Service charges from 1 July 2017.

¹ For the purposes of this report, the Commission has used the Adelaide March 2016 to March 2017 All Groups CPI of 2.0 percent as published by the Australian Bureau of Statistics (catalogue number 6401.0) for comparison.

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.

Flinders Ports has advised the Commission that ports users were sent letters advising them prior to the implementation of the 2017-18 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.

In September 2017, the Commission finalised its 2017 Ports Pricing and Access Review (**Review**). On the basis of the available evidence, the Commission's Final Decision is that both the current Pricing Regime (which takes the form of price monitoring and public reporting) and the Access Regime (which applies to a similar, but not identical, set of services known as 'Regulated Services') should continue for a further five years. Accordingly, the Commission will continue to publish annual ports price monitoring information until 30 October 2022) to provide ports users with information on ports charges at regulated ports.

The Minister for Transport and Infrastructure has accepted the Commission's recommendation to continue the Access Regime through until 30 October 2022 and a regulation was made on 17 October 2017 to extend the Regime for a further five years.

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 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**). Those ports are: Port Adelaide, Port Giles, Wallaroo, Port Pirie, Port Lincoln, and Thevenard.

The MSA Act establishes three categories of economic regulation over proclaimed ports:

- ▶ Essential Maritime Services (**EMS**)
- ▶ Regulated Services, and
- ▶ Pilotage Services.

This report covers the price regulation and price monitoring regimes that apply to EMS and Pilotage Services. It does not cover access matters relating to Regulated Services. These categories are discussed further below.

1.1.1 Essential Maritime Services

Price regulation applies to certain infrastructure services, referred to as EMS, 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.

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 Regulated Services

Access regulation applies to a set of services similar (but not identical) to EMS known as ‘Regulated Services’. Access regulation applies to channels, common user berths, land providing access to Maritime Services (all provided by Flinders Ports) and bulk loader services currently provided by Viterra Limited, at the six proclaimed ports.

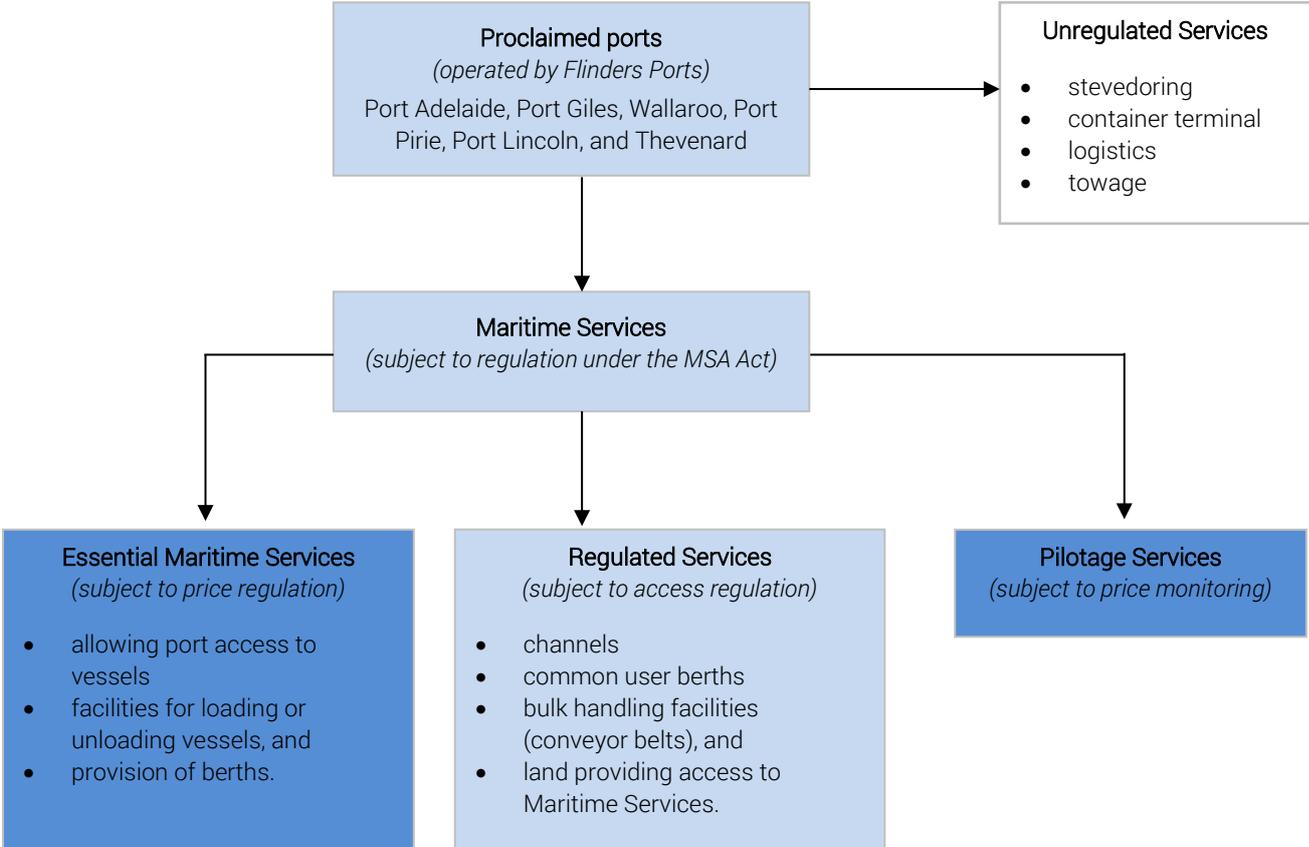
1.1.3 Pilotage Services

Pilotage Services are subject to price monitoring. 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.

The regulatory regime is summarised in Figure 1-1.

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.² 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). 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 be used to reach any conclusions on whether or not market power has been exercised during the period of the report. 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.

² 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>.

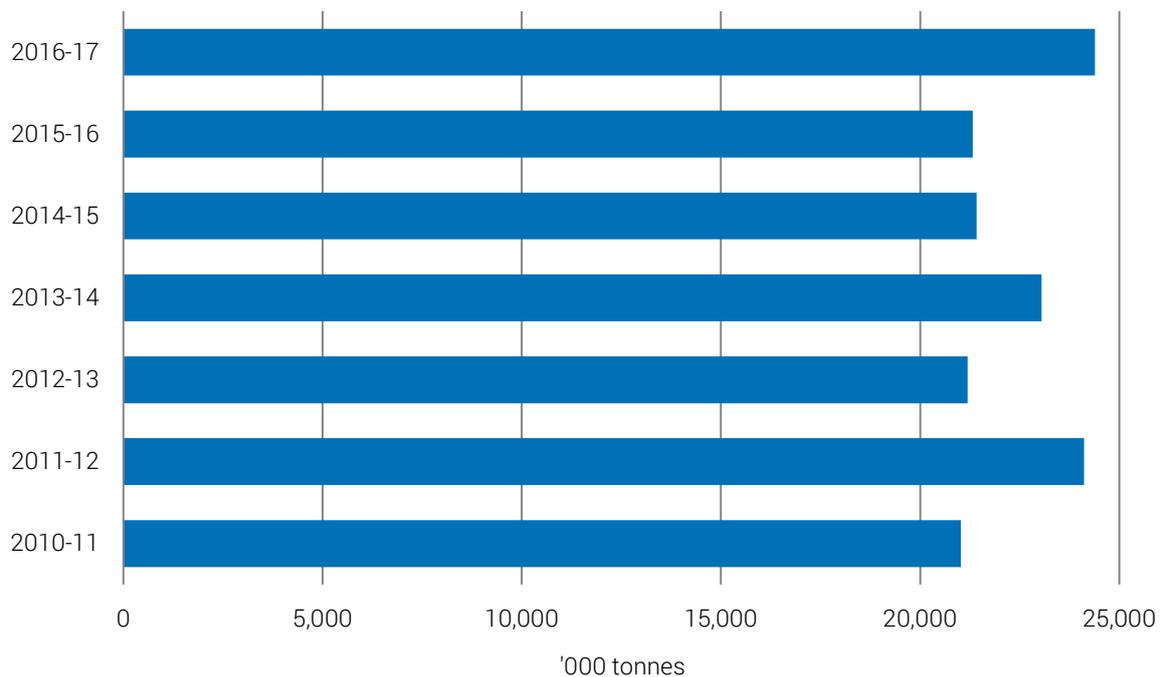
2 Ports statistics

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 has increased this year

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 seven years. Cargo throughput has increased in 2016-17 from the previous year by over 3,000 tonnes, which represents a 14 percentage increase.

Figure 2-1: Total annual cargo throughput (combined all ports)



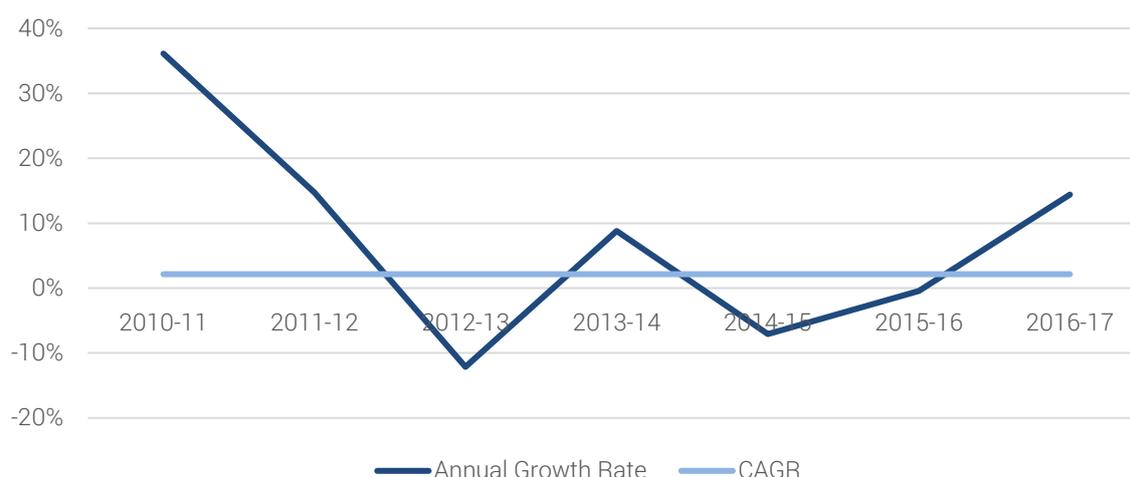
Source: Flinders Ports

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), therefore, 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.³ Total cargo throughput growth in 2016-17 of 14 percent was well in excess of the seven-year CAGR of 2.15 percent.

³ 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 have increased

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 seven years. There were a total of 1,784 vessel calls in 2016-17, with almost 79 percent of those at Port Adelaide.

Only Port Pirie experienced a decline in the number of vessel calls in 2016-17 in comparison to the previous year. Over the past seven years, Port Pirie recorded the highest annual growth rate in vessel calls at four 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 | 2016-17 | 2016-17 change [^] | Seven-year CAGR |
|------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------------------|-----------------|
| Port Adelaide | 1,125 | 1,221 | 1,225 | 1,275 | 1,266 | 1,284 | 1,408 | 10% | 3% |
| Port Giles | 35 | 42 | 32 | 39 | 41 | 18 | 30 | 67% | -2% |
| Port Lincoln | 133 | 124 | 101 | 115 | 140 | 102 | 107 | 5% | -3% |
| Port Pirie | 54 | 63 | 57 | 77 | 85 | 78 | 72 | -8% | 4% |
| Thevenard | 141 | 126 | 87 | 102 | 113 | 129 | 135 | 5% | -1% |
| Wallaroo | 49 | 46 | 31 | 36 | 32 | 23 | 32 | 39% | -6% |
| All ports | 1,537 | 1,622 | 1,533 | 1,644 | 1,677 | 1,634 | 1,784 | 9% | 2% |

Source: Flinders Ports [^] Indicates the change from the previous financial year.

2.3 Container trade growth maintained

Port Adelaide is South Australia's highest volume 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 seven years.

It shows that Port Adelaide maintained growth in container trade over this period, with a seven-year CAGR of four percent. The total number of containerised goods handled at Port Adelaide increased by three percent in 2016-17.

Table 3: Total number of containerised goods⁴ handled by Port Adelaide

| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2016-17 change [^] | 7-year CAGR |
|---------------|---------|---------|---------|---------|---------|---------|---------|-----------------------------|-------------|
| Port Adelaide | 230,196 | 255,242 | 268,499 | 297,911 | 291,287 | 300,728 | 309,838 | 3% | 4% |

Source: Flinders Ports

[^] Indicates the change from the previous financial year.

⁴ Twenty-foot equivalent units, excluding empty containers.

3 Ports charges

3.1 General increase in Flinders Ports' charges

In June 2017, Flinders Ports submitted its 2017-18 ports charges to the Commission.⁵ 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 2016 to March 2017 increase in CPI of 2.0 percent.

Table 4: Average Increase in EMS Prices for 2017-18

| Port Service | Average price increase | Difference over CPI |
|--------------------|------------------------|---------------------|
| Cargo (EMS) | 2.2% | 0.2% |
| Harbour (EMS) | 2.2% | 0.2% |
| Navigational (EMS) | 3.3% | 1.3% |
| Pilotage | 4.1% | 2.1% |

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 31 percent between 2004-05 and 2017-18⁶, compared to the 36 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 is monitoring this trend and will meet with Flinders Port before the end of this year to discuss this matter and seek further information on the price rises.

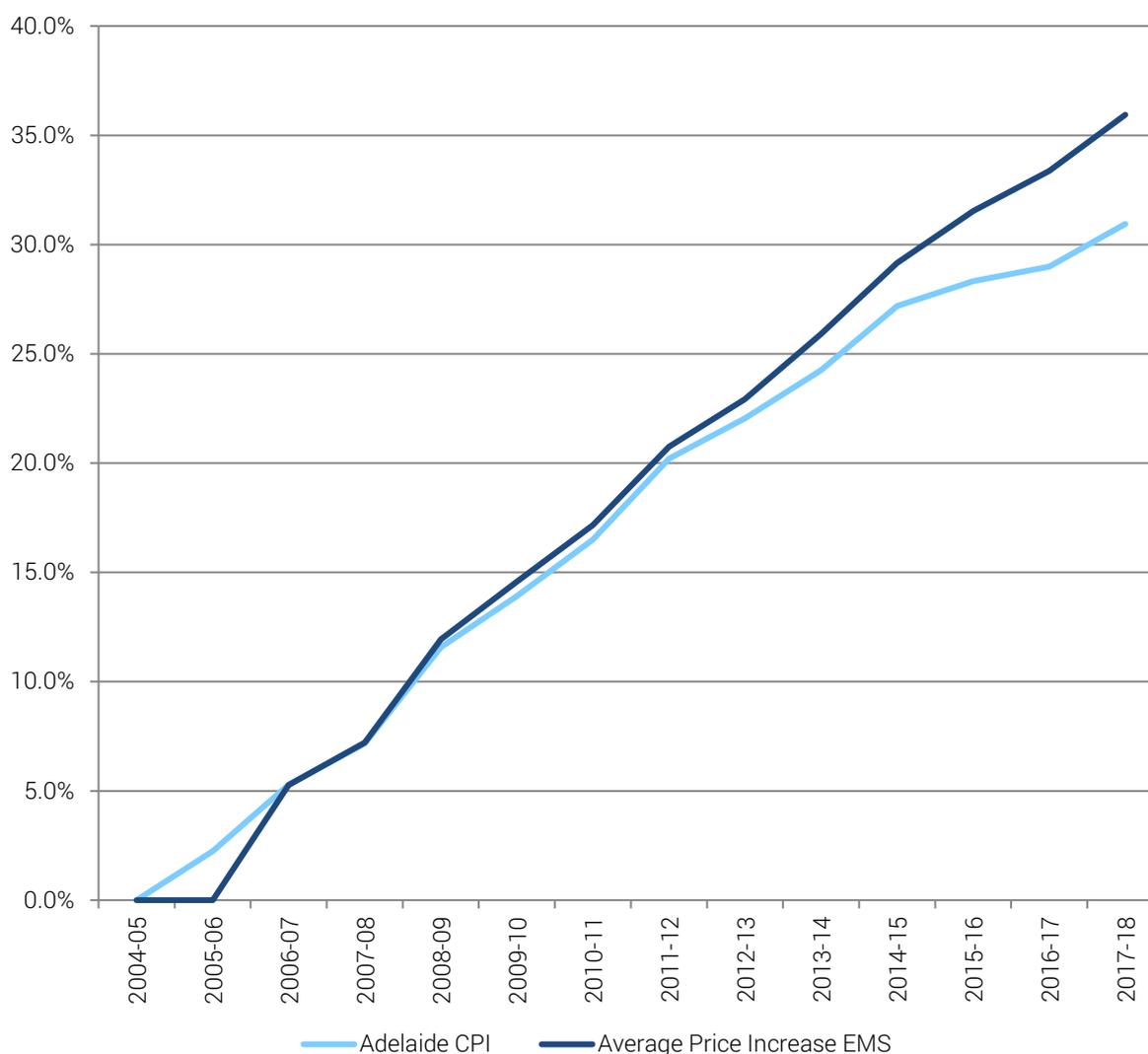
The Commission notes that since 2013-14, Flinders Ports has sought to pass through the full wage increases associated with its general Enterprise Bargaining Agreement (EBA) to its EMS charges.⁷ CPI increases were applied to the wage component of its Cargo Services, Harbour Services and Navigational Services in 2011-12 and 2012-13.

⁵ The 2016-17 ports prices are available on Flinders Ports' website at: <http://www.flindersports.com.au/portcharges1.html>.

⁶ EMS prices for a particular year are based on the previous year's Adelaide CPI figure – for example, the 2017-18 EMS prices are set with reference to the 2016-17 Adelaide CPI figure. Accordingly, there is a one year lag between the EMS and Adelaide's CPI figures shown in Figure 3.1.

⁷ 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 3.3 percent. The EBA relating to Pilotage Services runs from 2014-2018 and provides for a wage increase of four 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 increased

Average Cargo Service charges increased by 2.2 percent in 2017-18 (a real increase of 0.2 percent). This increase is driven by the general EBA entered into between Flinders Ports and its operational staff which provides for a wage increase of 3.33 percent in 2017-18.

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 increased

Average Harbour Service charges have increased by 2.2 percent in 2017-18 (a real increase of 0.2 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 increased

Average Navigational Service charges have increased by 3.3 percent in 2017-18 (a real increase of 1.3 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 3.33 percent in 2017-18. 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).⁸ 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.

3.5 Pilotage Service charges increased

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 4.1 percent in 2017-18 (a real increase of 2.1 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 4.0 percent in 2017-18. Labour costs make up approximately 90 percent of the total costs associated with Pilotage Services and contributed approximately 3.4 percent points to the overall increase in Pilot Service charges.

Information published by the Australian Bureau of Statistics indicates that the South Australian March 2016 to March 2017 seasonally adjusted wage price index was 2.2 percent.⁹ 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 0.4 percent points and 0.2 percent points 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.

⁸ Expressed in June 2012 dollars.

⁹ Refer to the Australian Bureau of Statistics (catalogue number 6345.0).

4 Next steps

Following its decision for the current Pricing Regime to continue for a further five years, the Commission will continue to publish annual ports price monitoring information until 30 October 2022.

The Minister for Transport and Infrastructure has accepted the Commission's recommendation to continue the Access Regime through until 30 October 2022 and a regulation was made on 17 October 2017 to extend the Regime for a further five years.

No pricing disputes have been brought to the attention of the Commission during the current regulatory period. Price movements over time have generally mirrored CPI increases and, in the limited circumstances where certain EMS prices have increased by more than CPI, the Commission has not found any evidence that might indicate a potential to exercise market power.

However the Commission has noted since 2011-12, average prices for Essential Maritime Services and Pilotage Services have both increased by more than the increase in CPI. The difference between these two prices and CPI has also been widening since 2011-12. To investigate this further and understand these differences the Commission has written to Flinders Ports requesting a meeting before the end of the year.

The Commission welcomes any comments in relation to the issues discussed in this report to assist it with its ongoing monitoring of port prices in South Australia. Those who wish to make comment should email a submission to escosa@escosa.sa.gov.au.



The Essential Services Commission
Level 1, 151 Pirie Street Adelaide SA 5000
GPO Box 2605 Adelaide SA 5001
T 08 8463 4444

E escosa@escosa.sa.gov.au | W www.escosa.sa.gov.au