



Ports

# 2015 Ports Price Monitoring Report

November 2015

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# Table of Contents

- Glossary of Terms..... ii
- 1 Executive Summary..... 1
- 2 Introduction..... 3
  - 2.1 Ports Price Regulatory Regime ..... 4
    - 2.1.1 Essential Maritime Services ..... 4
    - 2.1.2 Pilotage Services ..... 4
  - 2.2 Ports price monitoring methodology ..... 5
- 3 Recent Industry Performance ..... 6
  - 3.1 Cargo throughput..... 6
  - 3.2 Vessel calls ..... 7
  - 3.3 Containerised goods ..... 8
- 4 Ports Charges..... 9
  - 4.1 General increase in Flinders Ports’ charges ..... 9
  - 4.2 Cargo Service charges..... 10
  - 4.3 Harbour Service charges..... 10
  - 4.4 Navigational Service charges..... 10
  - 4.5 Pilotage Service charges..... 11
- 5 Next Steps ..... 12

## Glossary of Terms

TERM	DEFINITION
Commission	Essential Services Commission of South Australia
CAGR	Compound annual growth rate
CPI	Consumer Price Index
EBA	Enterprise Bargaining Agreement
EMS	Essential Maritime Services
ESC Act	Essential Services Commission Act 2002
Flinders Ports	Flinders Ports Pty Ltd
MSA Act	Maritime Services (Access) Act 2002
Viterra	Viterra Limited
VTS	Vessel tracking system

# 1 Executive Summary

Under the *Maritime Services (Access) Act 2002 (MSA Act)*, the Essential Services Commission (**Commission**) of South Australia has pricing and access regulatory functions for 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".

This is the third annual ports price monitoring 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 2015-16. The Price Determination requires Flinders Ports to provide the Commission with a copy of the list of prices for the provision of EMS, and to make those prices publicly available. The MSA Act also requires Flinders Ports 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 aim to improve price transparency.

The ports price regulatory regime is underpinned by a negotiate-arbitrate framework. While Flinders Ports is allowed to adjust its prices for services subject to price regulation without regulatory constraint, it may also negotiate with ports users in good faith to reach agreement for the provision of EMS and/or Pilotage Services to reach commercial outcomes – price that differs from that published in the ports price schedule. The price increases discussed in this Report may therefore not be reflective of the actual prices paid by all ports users. The Commission has received evidence in the past confirming that many ports users do pay charges below Flinders Ports' standard ports charges.

The purpose of these reports is to provide ports users with information on ports charges and address information asymmetry concerns, the Commission publishes annual ports price monitoring reports, commenting on factors underpinning price movements. In addition, these reports form part of the evidence base for the next five-yearly ports pricing review in 2017, and is not intended to reach any conclusions on whether or not market power has been misused during the current regulatory period.

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

Table 1-1 shows the average prices for EMS and Pilotage Services have both increased by greater than the Adelaide March 2014 to March 2015 annual CPI of 1.1 per cent.

Table 1-1: Port service charges<sup>a</sup> – changes and comparisons with CPI

PORT SERVICE	EMS	AVERAGE PRICE INCREASE	ADELAIDE CPI	DIFFERENCE
Cargo	✓	1.5%	1.1%	0.4%
Harbour	✓	2.9%	1.1%	1.8%
Navigational	✓	2.7%	1.1%	1.6%
Pilotage	x	5.1%	1.1%	4.0%

<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>1</sup> In 2012 the Commission reviewed whether the ports pricing and access regimes specified in the *Maritime Services (Access) Act 2000* should continue. This review concluded that a price monitoring regime and third-party access regime should continue until at least 2017, when another review would be conducted.

<sup>2</sup> For the purposes of this report, the Commission used the Adelaide March 2014 to March 2015 All Groups CPI of 1.1 per cent as published by the Australian Bureau of Statistics for comparison.

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 of price increase for Cargo Services is lower than that for Harbour Services and Navigational Services because 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). These two cost components contributed 3.2 per cent and 1.1 per cent respectively to the overall 5.1 per cent increase in Pilotage Service charges from 1 July 2015.

Flinders Ports has provided assurances to the Commission that ports users were consulted prior to the implementation of the 2015-16 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.

## 2 Introduction

The 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 MSA Act.

Under the MSA Act, the Commission is responsible for the regulation of pricing and access at proclaimed ports. The pricing and access regime covers the six commercial ports in South Australia which are currently operated by 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' and Pilotage charges. Access regulation applies to a similar, but not identical, set of services known as 'Regulated Services'. Viterra Limited (**Viterra**) provides some regulated services (for example, bulk loader services) that are subject to access regulation.

In October 2012, the Commission released its Ports Pricing and Access Review Final Report and a Ports Price Determination, which provides for a relatively light-handed form of price regulation.<sup>3</sup> It allows ports operators to set EMS prices, but it does so in the context of the Commission monitoring those prices and publicly reporting on them. A similar price monitoring regime exists for Pilotage Services, as established under section 8 of the MSA Act.

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<sup>3</sup> 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>.

## 2.1 Ports Price Regulatory Regime

The economic regulation of South Australian ports is underpinned by a negotiate-arbitrate regulatory framework. While requiring port operators to publish reference prices is an important starting point, port users are encouraged to engage in commercial negotiations for prices and service standards with the ports operator.

Two sets of port infrastructure services are covered by the price monitoring regulatory regime (as summarised in Figure 2-1). These are discussed further in sections 2.3.1 and 2.3.2 below.

### 2.1.1 Essential Maritime Services

Section 4 of the MSA Act defines EMS as the provision of:

- ▶ vessel access to a proclaimed port;
- ▶ port facilities for loading or unloading vessels at a proclaimed port; or
- ▶ vessel berthing at a proclaimed port.

At present, three categories of charges comprise the suite of port prices for these services:

- ▶ **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 & 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. The charges comprise a fixed component (labour and operating costs) and a variable component (infrastructure-based costs); and
- ▶ **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.

These three charges, in aggregate, cover the suite of EMS. They also correspond relatively well, though not exactly, with the three-part definition of EMS. There is no particular requirement for each charge to correspond to each part of the definition.

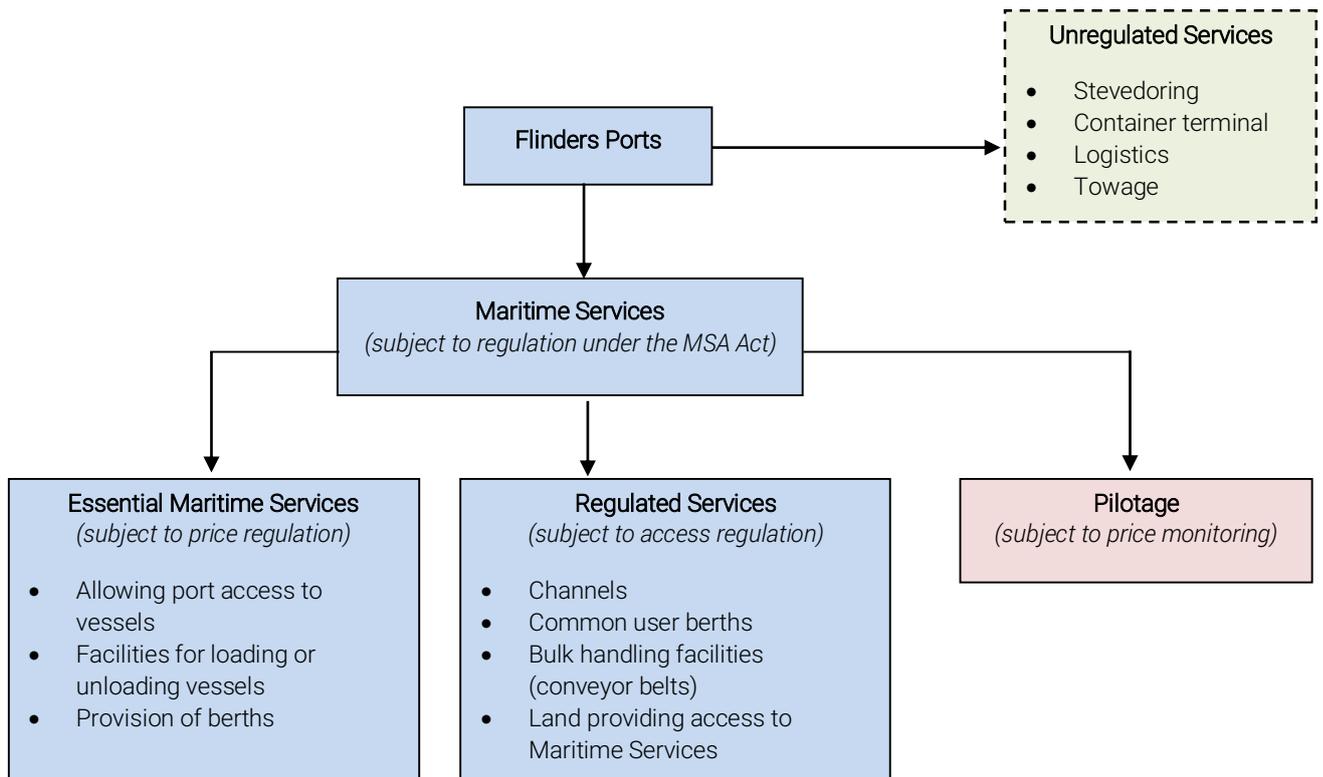
There are varying terms applying to the same services in ports around Australia. For the purposes of clarity, the range of ports services covered by EMS can be said to include services relating to the provision of: navigational aids, harbour control (but not pilotage or towage), channels, berths, wharves, 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).

### 2.1.2 Pilotage Services

Pilotage Services involve piloting a ship through the waterways that lead to a port – for reasons relating to both the protection of port infrastructure and to ensure the safety of the vessels. Flinders Ports is presently the only supplier of Pilotage Services at South Australia's proclaimed ports.

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

Figure 2-1: Economic Regulation of Flinders Ports



## 2.2 Ports price monitoring methodology

Under the regulatory regime, the Commission publishes annual ports price monitoring reports to provide information on prices and commentary on factors underpinning price movements. The ports price monitoring regime involves an evaluation of Flinders Ports' price increases as compared to changes in CPI. If the increases in ports charges exceed the change in CPI, Flinders Ports is required to provide information to the Commission to explain those increases.

Where the information provided by Flinders Ports does not adequately explain any real price increases, or if there is any other reason to conclude that a different form of price regulation is more appropriate, the Commission has the option to implement a more heavy-handed form of price regulation.

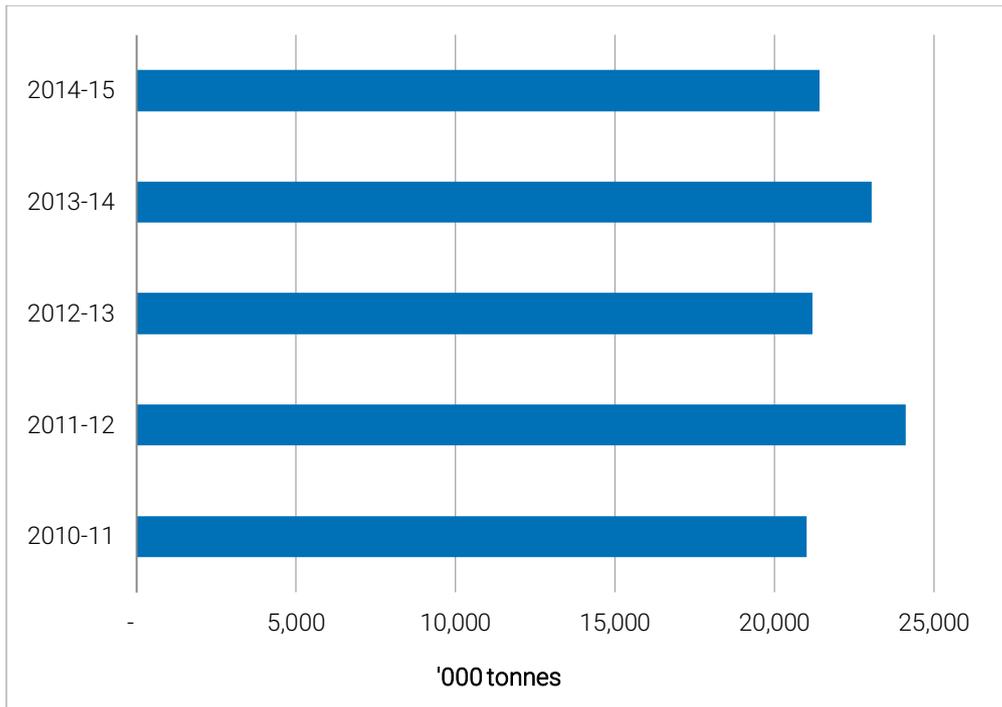
## 3 Recent Industry Performance

Ports provide essential interfaces between land and maritime transport. This chapter provides a high-level summary of the volume of trade going through proclaimed ports in South Australia and gives relevant context to the ports price changes described in chapter 4.

### 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 six years.

Figure 3-1: Total annual cargo throughput



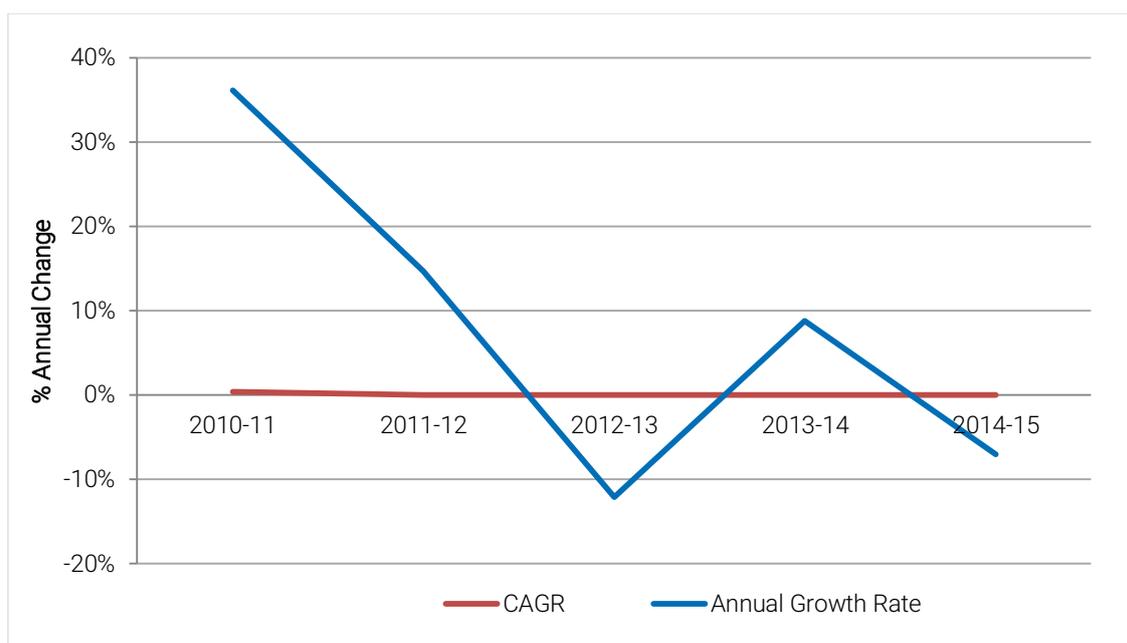
Source: Flinders Ports

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 3-2 compares the annual rate of change and the Compound Annual Growth Rate (CAGR) of cargo throughput tonnage at all regulated ports.<sup>4</sup> Total cargo throughput decreased by seven per cent in 2014-15 against the relatively flat five-year CAGR of 0.34 per cent.

<sup>4</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 3-2: Annual rate of change of total cargo throughput



Source: Flinders Ports

### 3.2 Vessel calls

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

Table 3-1 shows the number of vessel calls to each of the ports operated by Flinders Ports over the past five years. There were a total of 1677 vessel calls in 2014-15, with almost 75 per cent of those at Port Adelaide.

With the exception of Port Adelaide and Wallaroo, all other ports experienced increased vessel calls in 2014-15 in comparison to the previous year. Port Lincoln recorded the largest increase at 22 per cent. Over the past five years, Port Pirie recorded the highest annual growth rate in vessel calls at nine per cent (as measured by CAGR), albeit from a lower base.

Table 3-1: Vessel calls by port

	2010-11	2011-12	2012-13	2013-14	2014-15	2014-15 CHANGE <sup>A</sup>	5-YEAR CAGR
Port Adelaide	1125	1221	1225	1275	1266	-1%	2%
Port Giles	35	42	32	39	41	5%	3%
Port Lincoln	133	124	101	115	140	22%	1%
Port Pirie	54	63	57	77	85	10%	9%
Thevenard	141	126	87	102	113	11%	-4%
Wallaroo	49	46	31	36	32	-11%	-8%
<b>All Ports</b>	<b>1537</b>	<b>1622</b>	<b>1533</b>	<b>1644</b>	<b>1677</b>	<b>2%</b>	<b>2%</b>

Source: Flinders Ports

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

### 3.3 Containerised goods

Port Adelaide is South Australia's largest port and is the only port capable of handling containers. Table 3-2 presents the total number of containers handled at Port Adelaide over the past five years.

It shows that Port Adelaide maintained growth in container trade over this period, with a five-year CAGR of five per cent. The total number of containerised goods handled at Port Adelaide declined by two per cent in 2014-15.

Table 3-2: Total number of containerised goods<sup>5</sup> handled by Port Adelaide

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2014-15 CHANGE <sup>^</sup>	5-YEAR CAGR
Port Adelaide	208,331	230,196	255,242	268,499	297,911	291,287	-2%	5%

Source: Flinders Ports

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

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<sup>5</sup> Twenty-foot Equivalent Units, excluding empty containers.

## 4 Ports Charges

### 4.1 General increase in Flinders Ports' charges

In July 2015, Flinders Ports submitted its 2015-16 ports charges to the Commission.<sup>6</sup> The price schedule (as summarised in Table 4-1) shows that average prices for EMS and Pilotage Services have both increased by greater than the Adelaide March 2014 to March 2015 annual CPI of 1.1 per cent.

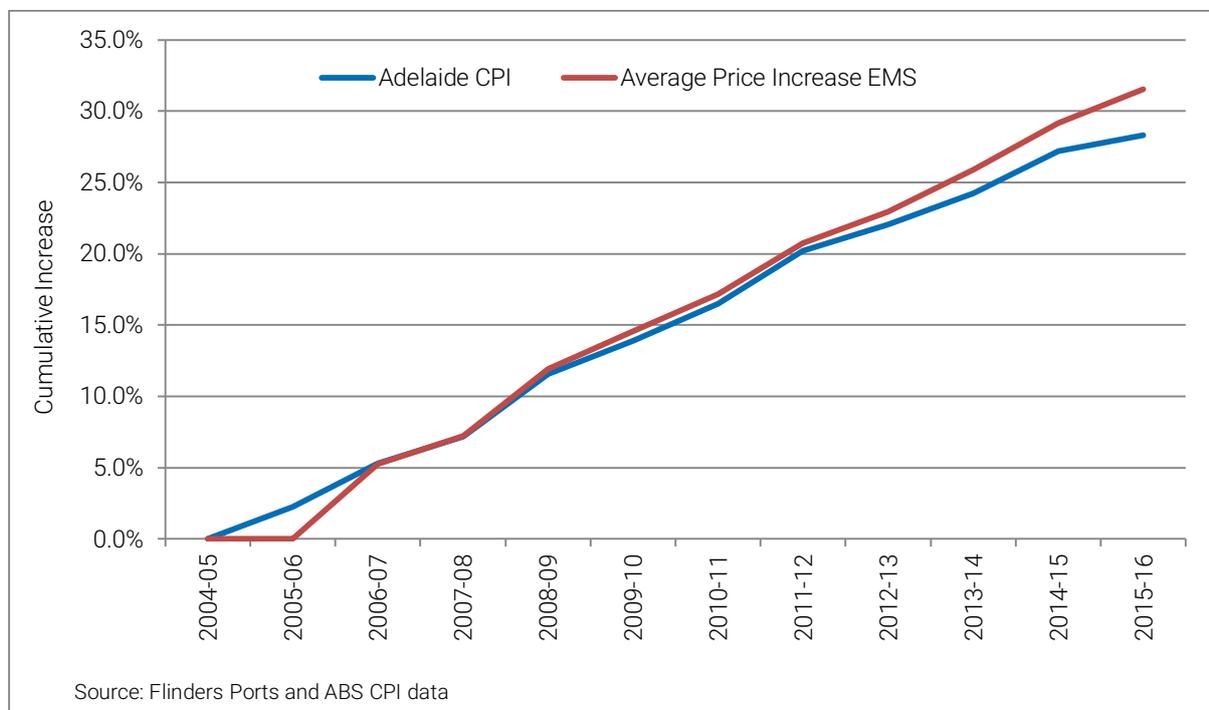
Table 4-1: Average Increase in EMS Prices for 2015-16

PORT SERVICE	EMS	AVERAGE PRICE INCREASE	ADELAIDE CPI	DIFFERENCE
Cargo	✓	1.5%	1.1%	0.4%
Harbour	✓	2.9%	1.1%	1.8%
Navigational	✓	2.7%	1.1%	1.6%
Pilotage	✗	5.1%	1.1%	4.0%

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 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.

Figure 4-1 shows that Adelaide's CPI has increased by approximately 28 per cent between 2004-05 and 2015-16, and non-weighted average EMS prices have nominally increased by around 32 per cent over the same period. It also shows that average prices for EMS have generally reflected CPI movements, although there have been some years of above-CPI price changes.

Figure 4-1: Movement of cumulative average EMS prices relative to Adelaide's CPI<sup>7</sup>



<sup>6</sup> The 2015-16 ports prices are available on Flinders Ports' website at: <http://www.flindersports.com.au/portcharges1.html>.

<sup>7</sup> The Commission has identified an error in the graph (Figure 4.1) used in the 2014 Ports Price Monitoring Report. Calculation errors resulted in the cumulative average EMS prices and Adelaide CPI of 2014-15 being higher than it should be. The correct cumulative average EMS prices and Adelaide CPI figures should be approximately 29 per cent and 27 per cent and not 32 per cent and 28 per cent as were depicted in the graph used in the 2014 Ports Price Monitoring Report.

The Commission notes that 2013-14 and 2015-16 are the only two years since 2011-12 in which Flinders Ports has sought to pass through wage increases associated with its general EBA to its EMS charges. CPI increases were applied to the wage component of its Cargo Services, Harbour Services and Navigational Services in other years.

## 4.2 Cargo Service charges

Average Cargo Service charges increased by 1.5 per cent in 2015-16 (a real increase of 0.4 per cent from 2014-15). This increase is driven by the new general Enterprise Bargaining Agreement (EBA) entered into between Flinders Ports and its operational staff which provides for a wage increase of 4.0 per cent in 2015-16.

Flinders Ports' general EBA is estimated to result in a 4.0 per cent wage increase for all operational staff employed by Flinders Ports for 2015-16. The overall increase consists of a 2.6 per cent wage increase (CPI plus 1.5 per cent) and 1.4 per cent in added costs negotiated into the EBA. Those added costs are associated with, for example, classification restructure of Flinders Ports' Marine Services teams and additional increases in the base rate of existing port services Guaranteed Wage Employees.

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

In assessing the information provided by Flinders Ports, the Commission is mindful of the fact that 2013-14 and 2015-16 are the only two years since 2011-12 in which Flinders Ports has sought to pass through wage increases associated with its general EBA as CPI increases were applied to the wage component of Cargo Services in other years.

The Commission is satisfied with the quality of information provided and the methodology used by Flinders Ports to derive the increase in Cargo Service charges.

## 4.3 Harbour Service charges

Average Harbour Service charges have increased by 2.9 per cent for 2015-16 (a real increase of 1.8 per cent). As with Cargo Service charges, the increase is driven by the new 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 per cent compared to 15 per cent for Cargo Services).

A CPI increase was applied to the remaining cost components of Harbour Services.

## 4.4 Navigational Service charges

Average Navigational Service charges have increased by 2.7 per cent in 2015-16 (a real increase of 1.6 per cent). This increase is underpinned by two key drivers.

First, increased wages stemming from the new general EBA entered into between Flinders Ports and its operational staff, which provides for a wage increase of 4.0 per cent in 2015-16. Labour costs make up approximately 20 per cent of the total costs associated with Navigational Services.

A CPI increase was applied to the remaining 80 per cent comprising infrastructure-based costs and operating costs. Based on the above cost base divisions, a weighted average price increase of 1.7 per cent was derived.

Second, an additional one per cent increase was levied to recover costs associated with the VTS implementation. Flinders Ports has stated its intention to apply an annual one per cent increase to Navigational Service charges, until the overall cost of the VTS implementation are recovered. These costs consist of approximately \$1.65 million in capital expenditure and \$100,000 in annual operating costs (with a CPI increase applied annually).<sup>8</sup> Although Flinders Ports intends to recover these costs over a ten-year period, the recovery period may fluctuate depending on vessel numbers.

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<sup>8</sup> Expressed in June 2012 dollars.

The Commission will continue to monitor annual information provided by Flinders Ports in relation to the recovery of costs associated with the VTS to ensure revenues recovered are consistent with its implementation costs.

#### **4.5 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 5.1 per cent for 2015-16 (a real increase of 4.0 per cent). This increase is underpinned by two key drivers.

First, increased wages as a result of the new EBA entered into between Flinders Ports and its marine pilots and boat crew, which provides for a wage increase of 4.0 per cent in 2015-16. Labour costs make up approximately 80 per cent of the total costs associated with Pilotage Services and contributed approximately 3.2 per cent to the overall increase in Pilot Service charges.

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 contributed approximately 1.1 per cent to the overall increase in Pilot Service charges.

Flinders Ports has noted that its average pilot movement charge in 2015-16 of \$3,033 per movement, remains low relative to the rates available at TasPorts (\$6,000 per movement) and Port of Melbourne (\$6,200 per movement).

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.

## 5 Next Steps

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

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 misuse of market power.

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](mailto:escosa@escosa.sa.gov.au).

