

# 2014 PORTS PRICE MONITORING REPORT

December 2014



## 2014 PORTS PRICE MONITORING REPORT

Information about the role and activities of the Commission, including copies of the latest reports and submissions, can be found on the ESCOSA website below.

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The Essential Services Commission of South Australia is the independent economic regulator of the water, electricity, gas, ports and rail industries in South Australia. The Commission's primary objective is the *protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services*. For more information, please visit [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au).

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## GLOSSARY OF TERMS

<b>2012 Review</b>	2012 Ports Pricing and Access Review Final Report
<b>CAGR</b>	Compound Annual Growth Rate
<b>Commission</b>	The Essential Services Commission of South Australia
<b>CPI</b>	Consumer Price Index
<b>EBA</b>	Enterprise Bargaining Agreement
<b>EMS</b>	Essential Maritime Services
<b>ESC Act</b>	<i>Essential Services Commission Act 2002</i>
<b>Flinders Ports</b>	Flinders Ports Pty Ltd
<b>GRT</b>	Gross Registered Tonnage
<b>Guideline</b>	Ports Industry Guideline No. 2
<b>MSA Act</b>	<i>Maritime Services (Access) Act 2000</i>
<b>Port of Brisbane</b>	Port of Brisbane Pty Ltd
<b>Port of Melbourne</b>	Port of Melbourne Corporation
<b>PPI</b>	Producer Price Index
<b>Sydney Ports</b>	Sydney Ports Corporation
<b>Tonnage</b>	Tonnage of cargoes handled
<b>Vessel calls</b>	Number of trading voyages to a port
<b>Viterra</b>	Viterra Ltd
<b>VTS</b>	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, 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 is due to expire on 30 October 2017.

The Commission's price monitoring regime primarily applies to Essential Maritime Services (**EMS**); these take the form of Cargo, Harbour and Navigational Services. In addition, the MSA Act establishes a separate price monitoring regime for Pilotage Services.

This is the second annual ports price monitoring report published by the Commission following its 2012 Ports Price Determination.<sup>1</sup> It reports on prices set by Flinders Ports in May 2014 to apply during the 2014/15 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 requirement that Flinders Ports must justify any rise in prices above CPI. For the purposes of this report, the Commission used the Adelaide March 2013 to March 2014 All Groups CPI in its price change comparison. All of Flinders Ports' 2014/15 ports prices have increased by at least the CPI figure of 2.9%, with two increasing above CPI. A summary of Flinders Ports' price increases in 2014/15, compared to those in 2013/14, is set out in Table 1-1.

Both Cargo and Harbour Service charges have increased by an average 2.9% (nominal) on the previous year, in line with the change in CPI. The Navigational Service charge increased above CPI, at 3.9%. Flinders Ports has explained that the increase is primarily due to the introduction of a 'Vessel Tracking System' (**VTS**), which is expected to improve the safety of navigational operations at the ports.<sup>2</sup>

Pilotage Service charges have increased by 7.5% from 1 July 2014, which is over twice the CPI. The main driver of the increase is increased salaries and wages of pilots and boat crew. These costs are subject to annual Enterprise Bargaining Agreement (**EBA**) increases which have been higher than the annual change in CPI. In addition, Flinders Ports is replacing two pilot vessels and the increased depreciation charge associated with those purchases is also contributing to the increase in pilotage charges.

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<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> In 2013 the Australian Maritime Safety Authority issued a Marine Order under the *Navigation Act 2012* which provides regulatory requirements for a VTS, which applies to Flinders Ports.

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

PORT SERVICE	2014/15			2013/14		
	CHARGE INCREASE	CPI	DIFFERENCE	CHARGE INCREASE	CPI	DIFFERENCE
Cargo	2.9%	2.9%	-	2.9%	2.2%	0.7%
Harbour	2.9%	2.9%	-	2.9%	2.2%	0.7%
Pilotage	7.5%	2.9%	4.6%	2.9%	2.2%	0.7%
Navigational	3.9%	2.9%	1.0%	3.2%	2.2%	1.0%

<sup>a</sup> These charges presented in this table are aggregated groupings of a number of other charges. A more detailed listing of the charges within these groups can be found in Table 4-1 of this report. The full list of charges can be found on Flinders Ports' website: <http://www.flindersports.com.au/portcharges1.html>.

The Commission has examined information presented by Flinders Ports to justify the above-CPI price increases for its Navigation Services and Pilotage Services and has had regard to movements in those prices that have taken place in other jurisdictions. Based on that information, the Commission considers those price increases to be justified. It will, however, closely monitor future price changes in light of potential productivity and efficiency improvements that are being pursued by Flinders Ports, to ensure that users benefit from those improvements in the long-term.

Flinders Ports has provided assurances to the Commission that ports users were consulted prior to the implementation of the 2014/15 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.

The Commission welcomes any comments in relation to the issues discussed in this report. Those who wish to make comment should email [escosa@escosa.sa.gov.au](mailto:escosa@escosa.sa.gov.au).

## 2. INTRODUCTION

### 2.1 Purpose of this report

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

### 2.2 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 price regulation.

In October 2012, the Commission released a Ports Pricing and Access Review Final Report. Accompanying that Final Report, the Commission issued 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.

Under the existing regulatory regime, the Commission publishes annual ports price monitoring reports, to provide information on prices and commentary on factors underpinning price movements. The Commission is able to establish a heavier handed form of regulation in future regulatory periods 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.

## 2.3 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.

Clause 2.2 of the 2012 Ports Price Determination<sup>4</sup> provides that the Commission may monitor and report on the prices charged for EMS. Figure 1-1 outlines the scope of these services and how they fit in with Flinders Ports' activities.

Two sets of ports infrastructure services are covered by the price monitoring regulatory regime. These are discussed further in sections 2.3.1. and 2.3.2.

### 2.3.1 Essential Maritime Services

Section 4 of the MSA Act defines EMS as providing:

- ▲ for access of vessels to a proclaimed port;
- ▲ 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:

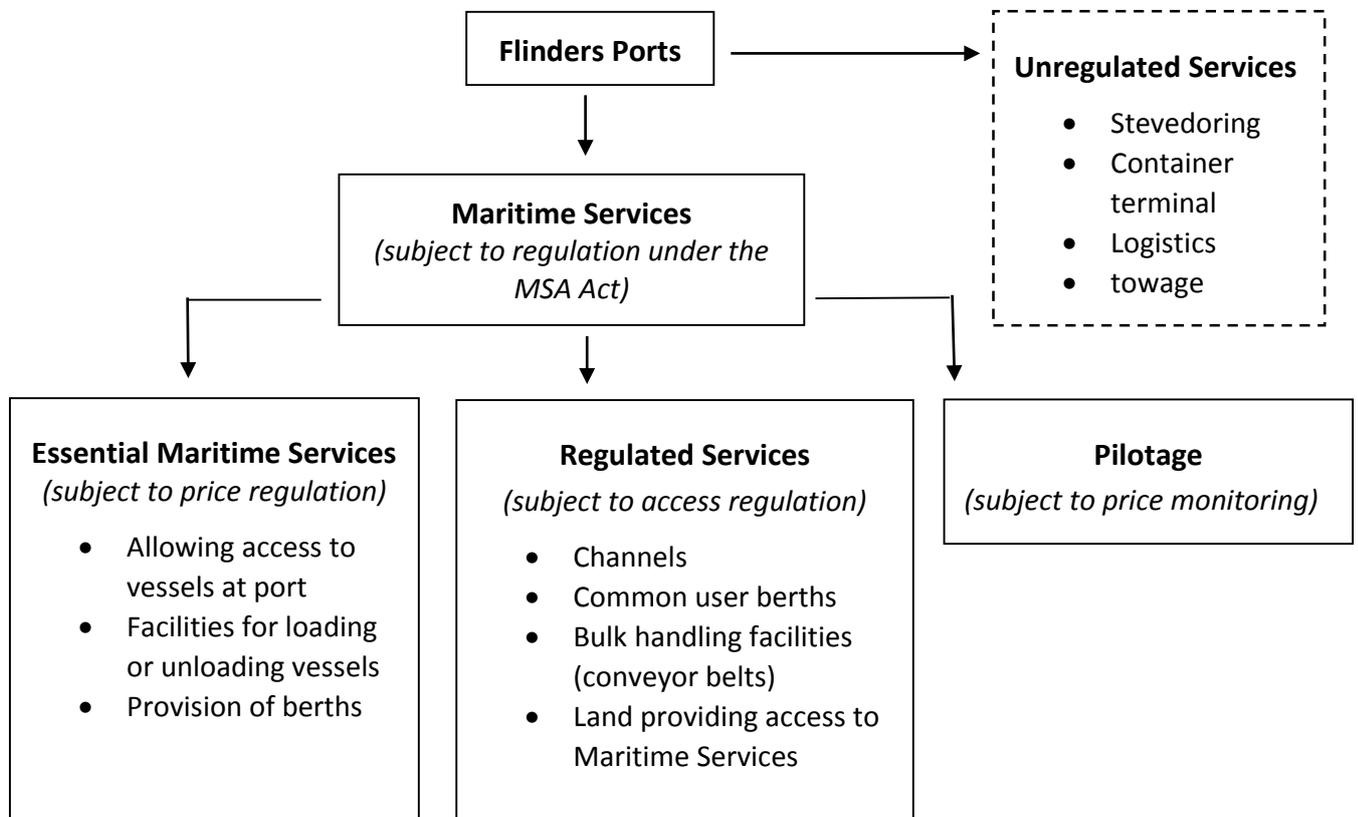
- ▲ Navigation Service charge;
- ▲ Harbour Service & Mooring charge; and
- ▲ Cargo Service charge.

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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>.

<sup>4</sup> The 2012 Ports Price Determination is available on the Commission's website at: [http://www.escosa.sa.gov.au/library/120830-2012\\_PortsPriceDetermination-FinalPriceDetermination.pdf](http://www.escosa.sa.gov.au/library/120830-2012_PortsPriceDetermination-FinalPriceDetermination.pdf).

**Figure 2-1: Economic Regulation of Flinders Ports**



The range of ports services covered by EMS 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).

### 2.3.2 Pilotage service charges

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.

## 2.4 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**).<sup>5</sup>

If price monitoring reveals that price increases have exceeded the change in CPI, it requests the ports operator to justify those increases. The Commission assesses those justifications in annual ports price monitoring reports.

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<sup>5</sup> In comparing the change in 2014/15 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 2013 to March 2014, 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 2013 to March 2014 is published as Adelaide March 2014.

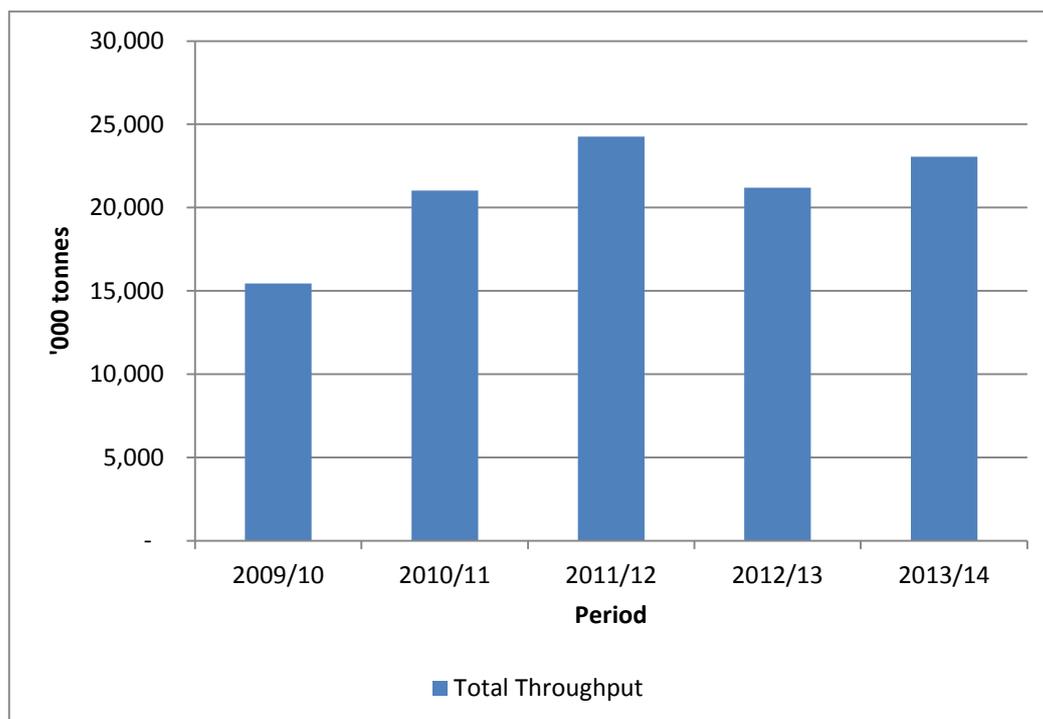
### 3. RECENT INDUSTRY PERFORMANCE

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 4. 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: Total annual cargo throughput**

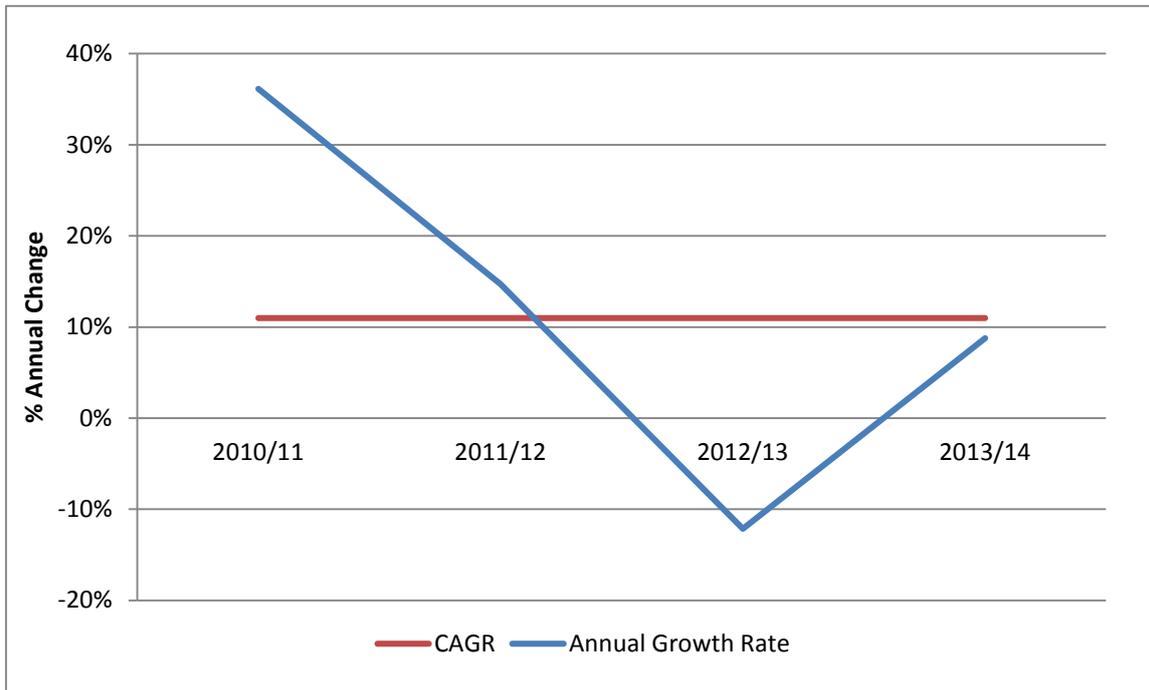


Source: Flinders Ports

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>6</sup> Total cargo throughput increased by 9% in 2013/14 which is below the past four-year CAGR of 11%.

<sup>6</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 Port activities

Port activity can also be measured in ‘vessel calls’, the number of voyages made by a ship to a port.

There were a total of 1,644 vessel calls in 2013/14, with almost 80% of those at Port Adelaide.

All ports experienced increased vessel calls in 2013/14 as compared with the previous year. The largest was recorded at Port Pirie, a 35% increase from 2012/13. Over the past four years, vessel calls at Port Giles have increased by 37% (as measured by CAGR).

Table 3-1 presents the number of vessel calls to each of Flinders Ports’ ports between 2009/10 and 2013/14.

**Table 3-1: Vessel calls by port**

	2009/10	2010/11	2011/12	2012/13	2013/14	2013/14 CHANGE <sup>^</sup>	4-YEAR CAGR
Port Adelaide	1,040	1,125	1,221	1,225	1,275	4%	5%
Port Giles	11	35	42	32	39	22%	37%
Port Lincoln	82	133	124	101	115	14%	9%
Port Pirie	65	54	63	57	77	35%	4%
Thevenard	99	141	126	87	102	17%	1%
Wallaroo	25	49	46	31	36	16%	10%
<b>All Ports</b>	<b>1,322</b>	<b>1,537</b>	<b>1,622</b>	<b>1,533</b>	<b>1,644</b>	<b>7%</b>	<b>6%</b>

Source: Flinders Ports

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

Similar to the observed level of total tonnage, vessel calls were higher (7%) in 2014/13 compared with that reported in 2012/13.

Increases were recorded in all ports other than Wallaroo, which recorded a small reduction (1%) in tonnage from the previous year. The increases in tonnage were the largest at Port Lincoln (22%) and Thevenard (19%).

Table 3-2 presents the total tonnage of cargoes handled at each regulated port between 2009/10 and 2013/14.

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

	2009/10	2010/11	2011/12	2012/13	2013/14	2013/14 CHANGE <sup>^</sup>	4-YEAR CAGR
Port Adelaide	10,600	12,720	15,670	15,166	16,122	6%	11%
Port Lincoln	1,308	2,933	2,998	1,893	2,305	22%	15%
Port Pirie	652	550	652	604	620	3%	-1%
Thevenard	2,151	3,032	2,828	2,046	2,433	19%	3%
Wallaroo	410	910	953	761	756	-1%	17%
Port Giles	324	880	1,014	719	815	13%	26%
<b>All Ports</b>	<b>15,445</b>	<b>21,024</b>	<b>24,114</b>	<b>21,190</b>	<b>23,051</b>	<b>9%</b>	<b>11%</b>

Source: Flinders Ports

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

Table 3-3 presents the total number of containers handled at Port Adelaide between 2009/10 and 2013/14.

It shows that Port Adelaide maintained consistent growth in container trade over this period, with a four-year CAGR of 8%. The total number of containerised goods handled by Port Adelaide in 2013/14 grew by 5% as compared with the previous years.

**Table 3-3: Total number of containerised goods<sup>7</sup> handled by Port Adelaide**

	2009/10	2010/11	2011/12	2012/13	2013/14	2013/14 CHANGE <sup>^</sup>	4-YEAR CAGR
Port Adelaide	208,331	230,196	255,242	268,499	282,337	5%	8%

Source: Flinders Ports

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

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<sup>7</sup> Twenty-foot Equivalent Units (TEU), excluding empty containers.

## 4. PORTS PRICES

### 4.1 *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. 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 aim to improve price transparency.

In August 2014, Flinders Ports submitted to the Commission its 2014/15 ports prices.<sup>8</sup> The new schedule of prices shows that average prices for cargo services and harbour services have increased in line with the Adelaide March 2013 to March 2014 annual CPI of 2.9%. However, prices for navigation services and pilotage have, on average, increased by 3.9% and 7.5% respectively.

Figure 4-1 shows that, since 2005/06, ports prices for EMS in South Australia have generally reflected CPI movements, although there have been <sup>years</sup> of above CPI price changes. Adelaide's CPI has increased by approximately 28% from 2005/06 to 2014/15, and non-weighted average EMS prices have nominally increased by around 32% over the same period.

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 navigation and pilotage charges for 2014/15, Flinders Ports has provided the Commission with information to justify the real price increases. This is further discussed in the remaining sections of this chapter.

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<sup>8</sup> The 2013/14 ports prices are available on Flinders Ports' website at <http://www.flindersports.com.au/portcharges1.html>.

Table 4-1 shows a sample of Flinders Ports' 2014/15 ports prices compared to 2013/14 prices.

Figure 4-1 shows that, since 2005/06, ports prices for EMS in South Australia have generally reflected CPI movements, although there have been years of above CPI price changes. Adelaide's CPI has increased by approximately 28% from 2005/06 to 2014/15, and non-weighted average EMS prices have nominally increased by around 32% over the same period.

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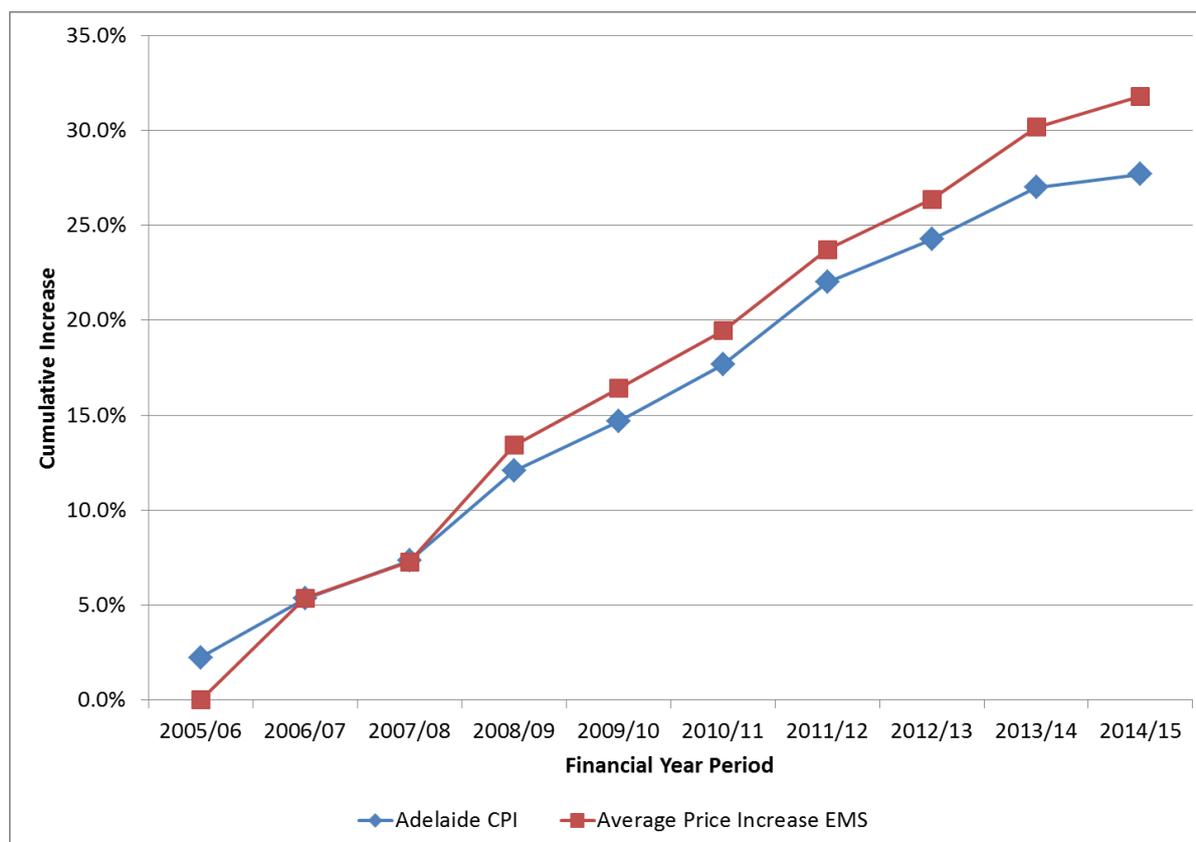
**Table 4-1: Flinders Ports' 2013/14 & 2014/15 pricing schedule comparison**

SERVICES	13/14 PRICES INC GST	14/15 PRICES INC GST	NOMINAL % INCREASE
<b>Cargo Service Charges</b>			
Bulk Cargo - Salt (\$/tonne)	1.782	1.837	3.09%
Bulk Cargo - Grain (\$/tonne)	2.189	2.255	3.02%
Non-Containerised Cargo - Live Sheep (\$/each)	0.33583	0.34562	2.92%
Containerised Cargo - 20' Container (\$/container)	81.51	83.82	2.83%
<b>Harbour Service Charges (includes mooring)</b>			
Port Adelaide - Base Charge (\$ per ship visit)	3949.22	4063.752	2.90%
Port Adelaide - Variable Charge (\$ per GRT <sup>9</sup> per hour at berth)	0.00649	0.00671	3.39%
Other Ports - Base Charge (\$ per ship visit)	3394.82	3493.27	2.90%
Other Ports - Variable Charge (\$ per GRT per hour at berth)	0.00627	0.00649	3.51%
<b>Navigation Service Charges</b>			
All Ports - Base Charge (\$ per ship visit)	1276.825	1326.622	3.90%
All Ports - Variable Charge (\$ per GRT per hour)	0.14102	0.14652	3.90%
<b>Pilotage Charges</b>			
All Ports			
A - Boarding Station or Anchorage to or from Berth	2953.324	3174.82	7.50%
B - Boarding Station to or from Anchorage	1904.892	2047.76	7.50%
C - Removal from one Berth to another in a harbour and warping along a wharf by a pilot in attendance	1587.399	1706.452	7.50%

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.

<sup>9</sup> GRT refers to Gross Registered Tonnage, a weight measurement of the ship.

**Figure 4-1: Movement of cumulative average EMS prices relative to 2005/06**



Source: Flinders Ports and ABS CPI data

## 4.2 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 4.1, Cargo and Harbour Service charges have increased on average by 2.9% for 2014/15, in line with the Adelaide March 2013 to March 2014 CPI. This follows a 2.9% increase in those charges in 2013/14.

Under the Commission's price monitoring approach, it has not sought to investigate the drivers of the price increase in 2014/15 where that increase is consistent with CPI. The Commission's analysis has instead focussed on those services where above CPI price increases have been instituted.

### 4.3 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 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.

Flinders Ports has stated that one of the major drivers of the 7.5% increase in 2014/15 pilotage charges is the increase in salaries and wages of pilots and boat crews. Under Flinders Ports' existing Enterprise Bargaining Agreement for the period 2011 to 2015 (**EBA**), wages in 2014/15 are allowed to increase by 4.5% for operational staff and 4.0% for management. Those increases have flowed through to pilotage charges.

In addition, Flinders Ports plans to acquire two new pilot vessels to replace vessels that are now 25 years old and are reaching the end of their useful lives. The depreciation charge associated with those acquisitions also contributes to the overall 7.5% increase in pilotage charges.

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 2014/15. Table 4-2 shows the change in Pilotage Service charges across Australia compared to each city's March 2013 to March 2014 CPI figure. This illustrates that Flinders Ports' increases in Pilotage Service charges are around the mid-range when compared with increases in other ports in 2014/15. Flinders Ports has also noted that its average pilot movement charge in 2014/15 of \$2,886 per movement is low relative to the rates available at TasPorts (\$5,500 per movement) and Port of Melbourne (\$5,835 per movement).

**Table 4-2: Change in Pilotage Service charges around Australia –2013/14 to 2014/15**

	PILOTAGE PRICE CHANGE	CPI CHANGE <sup>10</sup>	DIFFERENCE
Flinders Ports	7.5%	2.9%	4.6%
Sydney Ports <sup>11</sup>	12.4%	2.8%	9.6%
Port of Melbourne <sup>12</sup>	1%	2.8%	-1.8%
Port of Brisbane <sup>13</sup>	2.8%	3.1%	-0.3%
Fremantle Ports <sup>14</sup>	7.0%	3.1%	3.9%
Port Philips Sea Pilots Pty Ltd <sup>15</sup>	4.0%	2.8%	1.2%

While the Commission accepts that other port operators are facing cost pressures in the provision of pilotage services, it has some concerns over the real price increases that have been implemented by Flinders Ports in recent years, given that it is the only provider of pilotage services in South Australia. The Commission will monitor this issue closely over the coming years, particularly as Flinders Ports moves towards negotiating a new EBA to apply from 2015. The Commission would expect that, over time, any real increase in wages should be offset by improvements in productivity. The Commission will review information from Flinders Ports on compensating efficiency or productivity improvements that should be realised in future years, as it prepares subsequent annual price monitoring reports, and in the next comprehensive review of the overall regime (which will occur in 2017).

#### 4.4 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.

<sup>10</sup> 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.

<sup>11</sup> Sydney Ports, *Schedule of Port Charges*, available at: [http://www.sydneyports.com.au/\\_data/assets/pdf\\_file/0015/31074/Sydney\\_Ports\\_Corporation\\_Schedule\\_of\\_Port\\_Charges\\_FY\\_2014-15\\_v0.5\\_-\\_24\\_July\\_2014.pdf](http://www.sydneyports.com.au/_data/assets/pdf_file/0015/31074/Sydney_Ports_Corporation_Schedule_of_Port_Charges_FY_2014-15_v0.5_-_24_July_2014.pdf).

<sup>12</sup> Port of Melbourne, *Reference Tariff Schedule*, available at: <http://www.portofmelbourne.com/port-operations/port-pricing>.

<sup>13</sup> Port of Brisbane, *Schedule of Port Charges as at 1 July 2014*, available at: [http://www.portbris.com.au/PortBris/media/General-Files/Shipping%20Operations/2014\\_Port-Charges-Schedule-2.pdf](http://www.portbris.com.au/PortBris/media/General-Files/Shipping%20Operations/2014_Port-Charges-Schedule-2.pdf).

<sup>14</sup> Fremantle Ports, *Ship and Cargo Charges from 1 July 2014*, available at: <http://www.fremantleports.com.au/SiteCollectionDocuments/Ship%20and%20Cargo%20Charges%20from%201%20July%202014.pdf>.

<sup>15</sup> Port Philip Sea Pilots, *Pilotage Rates*, available at: <http://www.ppsp.com.au/Files/CMS/PDF/PPSPPilotageRatesJuly2014.pdf>.

Navigational Service charges increased by 3.9% in 2014/15; a 1% real increase, primarily due to the implementation of a new VTS. In 2013/14, Navigational Service charges also increased by 1% more than the CPI, to reflect VTS costs. Flinders Ports has previously 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.<sup>16</sup>*

As noted by the Commission in its previous ports price monitoring report, the introduction of the VTS is expected to improve the safety of navigational operations at the ports.<sup>17</sup>

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 has stated its intention that an additional real 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. Navigational Service charges generally increased in line with CPI between 2007/08 and 2012/13.

Having regard to those matters, the Commission has formed the view that the above CPI increase for Navigational Service charges is justified.

#### 4.5 Other jurisdictions

In satisfying itself that Flinders Ports’ prices are justified, the Commission has also examined the prices charged for ports and pilotage services in other Australian jurisdictions. The magnitude of price adjustments that took effect from 1 July 2014 varies across major interstate ports as follows:

- ▲ Sydney Ports Corporation (**Sydney Ports**) increased both its port charges and pilotage charges by 12.4% over its January 2013 prices, an annualised increase of 8.3%.<sup>18</sup> This is well in excess of the Sydney March 2013 to March 2014 CPI of 2.8%.
- ▲ Fremantle Ports increased port charges by 5.0% and pilotage charges by 7.0% (with a limited number of pilotage charges increased by more than 7.0%);<sup>19</sup> all increases were in excess of the Perth March 2013 to March 2014 CPI of 3.1%.

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<sup>16</sup> Flinders Ports letter to the Commission Re: Schedule of Charges – 1 July 2013.

<sup>17</sup> 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>. The Commission also notes that in 2013 the Australian Maritime Safety Authority issued a Marine Order under the *Navigation Act 2012* which provides regulatory requirements for a VTS, which applies to Flinders Ports.

<sup>18</sup> Sydney Ports, *Schedule of Port Charges*, available at: [http://www.sydneyports.com.au/\\_data/assets/pdf\\_file/0015/31074/Sydney\\_Ports\\_Corporation\\_Schedule\\_of\\_Port\\_Charges\\_FY\\_2014-15\\_v0.5\\_-\\_24\\_July\\_2014.pdf](http://www.sydneyports.com.au/_data/assets/pdf_file/0015/31074/Sydney_Ports_Corporation_Schedule_of_Port_Charges_FY_2014-15_v0.5_-_24_July_2014.pdf).

- ▲ Port of Melbourne Corporation's (**Port of Melbourne**) limited its overall increase in port charges to less than 1.0%,<sup>20</sup> whilst Port Philip Sea Pilots Pty Ltd increased pilotage rates by 4.0%.<sup>21</sup> These increases compare with the Melbourne March 2013 to March 2014 CPI rate of 2.8%.
- ▲ Port of Brisbane Pty Ltd (**Port of Brisbane**) increased charges by 2.8%,<sup>22</sup> marginally below the Brisbane March 2013 to March 2014 CPI of 3.1%.

## 4.6 Comparison to Producer Price Index

The Commission has generally favoured the Consumer Price Index as the basis for monitoring changes in EMS charges, as it is consistent with general regulatory practice, is simple to administer and is difficult to influence.

It is recognised that other price indexes could be used as a reference point for EMS charges. An index that would more closely reflect the costs of a port operator is the Producer Price Index (**PPI**). The ABS publishes the PPI with the purpose of measuring inflation by industry, including the ports industry. The ABS outlined the purpose for which PPI is used:

*the principal purpose of the producer price indexes ... is to measure inflation by industry to support the compilation of the Australian National Accounts and Balance of Payments*<sup>23</sup>

The PPI employs ABS classifications in order to find inflation in specific industries. The ABS classifications include Water Transport Support Services,<sup>24</sup> which contains three subsections which generally cover Flinders Ports' EMS charges, other than in relation to stevedoring services, which are not an EMS. These classifications and the primary activities they cover are outlined in Table 4-3.

These three classifications each correspond to activities, some of which are regulated services provided by Flinders Ports. As outlined in section 2, EMS charges generally cover

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<sup>19</sup> Fremantle Ports, *Ship and Cargo Charges from 1 July 2014*, available at: <http://www.fremantleports.com.au/SiteCollectionDocuments/Ship%20and%20Cargo%20Charges%20from%201%20July%202014.pdf>.

<sup>20</sup> Port of Melbourne, *Reference Tariff Schedule*, available at: <http://www.portofmelbourne.com/port-operations/port-pricing>.

<sup>21</sup> Port Philip Sea Pilots, *Pilotage Rates*, available at: <http://www.ppsp.com.au/Files/CMS/PDF/PPSPilotageRatesJuly2014.pdf>.

<sup>22</sup> Port of Brisbane, *Schedule of Port Charges as at 1 July 2014*, available at: [http://www.portbris.com.au/PortBris/media/General-Files/Shipping%20Operations/2014\\_Port-Charges-Schedule-2.pdf](http://www.portbris.com.au/PortBris/media/General-Files/Shipping%20Operations/2014_Port-Charges-Schedule-2.pdf).

<sup>23</sup> Australian Bureau of Statistics, *6427.0 Producer Price Indexes, Australia*; available at <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6427.0Explanatory%20Notes1Sep%202012?OpenDocument>.

<sup>24</sup> Australian Bureau of Statistics, *1292.0 – Australian and New Zealand Standard Industrial Classification (ANZIC), 2006 (Revision 1.0)*; available at <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/C65D56C3FF476BC2CA257B9500133BB3?opendocument>.

Navigational, Cargo and Harbour services (Pilotage service charges are subject to a similar form of price regulation). The Commission considers that all of these service charges are broadly consistent with the services provided by many of the primary activities outlined in Table 4-3.

**Table 4-3: ABS Water Transport Support Services classifications**

ABS CLASSIFICATION	PRIMARY ACTIVITIES
Class 5211 Stevedoring Services <sup>25</sup>	<ul style="list-style-type: none"> <li>▲ Ship loading or unloading service (provision of labour)</li> <li>▲ Stevedoring service</li> </ul>
Class 5212 Port and Water Transport Terminal Operations <sup>26</sup>	<ul style="list-style-type: none"> <li>▲ Coal loader operation (water transport)</li> <li>▲ Container terminal operation (water transport)</li> <li>▲ Grain loader operation (water transport)</li> <li>▲ Port operation</li> <li>▲ Ship mooring service</li> <li>▲ Water freight terminal operation</li> <li>▲ Water passenger terminal operation</li> <li>▲ Wharf operation</li> </ul>
Class 5219 Other Water Transport Support Services <sup>27</sup>	<ul style="list-style-type: none"> <li>▲ Lighterage service</li> <li>▲ Navigation service (water transport)</li> <li>▲ Pilotage service</li> <li>▲ Salvage service, marine</li> <li>▲ Ship registration and agency service</li> <li>▲ Towboat and tugboat operation</li> <li>▲ Water vessel towing service</li> </ul>

Source: Australian Bureau of Statistics

<sup>25</sup> Refer to: <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6F3C591E60D4BA90CA257B9500133D14?openDocument>.

<sup>26</sup> Refer to: <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/FB5E1A57D25AD411CA257B9500133EA6?openDocument>.

<sup>27</sup> Refer to: <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/94AED979B87FAD18CA257B9500133BB4?openDocument>.

The annual change in the PPI for Water Transport Support Services (from March 2013 to March 2014) was 1.21%. This is below the 2.9% change in the CPI and the average change in each of the EMS charges from 1 July 2014. It is, however, important to highlight that, because of the more limited goods and services that make up this PPI, it can be more sensitive to changes in the price of individual services than the CPI. The same PPI index from March 2012 to March 2013 rose by 6.87% which was significantly above the corresponding change in the CPI. In both years, the increase in the stevedoring price index was below the increase in the total Water Transport Support Services index, which means that the non-stevedoring services (more comparable to EMS charges) increased by more than 6.87% and 1.21% in the years ending 31 March 2013 and 31 March 2014 respectively.

The Commission will keep under review the use of PPI, or alternative price indexes, and will consider those alternatives more fully when it conducts its next 5 year review of the South Australian ports pricing and access regime (in 2017). Comments from stakeholders on alternative price indexes for monitoring EMS charges are welcome.

## 5. LOOKING FORWARD

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), and will also continue to monitor the effectiveness of its ports price monitoring approach throughout this period.

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. Those who wish to make comment should email [escosa@escosa.sa.gov.au](mailto:escosa@escosa.sa.gov.au).



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