



Ports

2018 Ports Price Monitoring Report

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Glossary of terms

Term	Description
Commission	Essential Services Commission, established under the ESC Act
EBA	Enterprise Bargaining Agreement
EMS	Essential Maritime Services
ESC Act	Essential Services Commission Act 2002
Flinders Ports	Flinders Ports Pty Ltd
Report	2018 Ports Price Monitoring Report
MSA Act	Maritime Services (Access) Act 2000
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 Ports Price Monitoring Report (**Report**) reports on ports charges set by Flinders Ports Pty Ltd (**Flinders Ports**) to apply during 2018-19 under the Ports Price Determination: 2017-2022.

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 relies on information provided by Flinders Ports' to explain its price increases.

Table 1 shows that the average prices for EMS and Pilotage Services have both increased in 2018-19.

Table 1: 2018-19 Port service charges movements ^a

Port Service	Average price increase
Cargo (EMS)	2.5%
Harbour (EMS)	2.3%
Navigational (EMS)	3.5%
Pilotage	4.2%

^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>.

For EMS, Flinders Ports has advised that the key drivers underpinning the price increases from 1 July 2018 were increased wage costs for all services and the continued recovery of costs associated with the introduction of a Vessel Tracking System through Navigational Service charges.

For Pilotage Services, Flinders Ports has advised that the key drivers underpinning the price increase from 1 July 2018 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 4.0 percent to the overall 4.2 percent increase in Pilotage Service charges.

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. The price increases discussed in this Report may therefore not be reflective of the actual prices paid by all ports users.

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.

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.

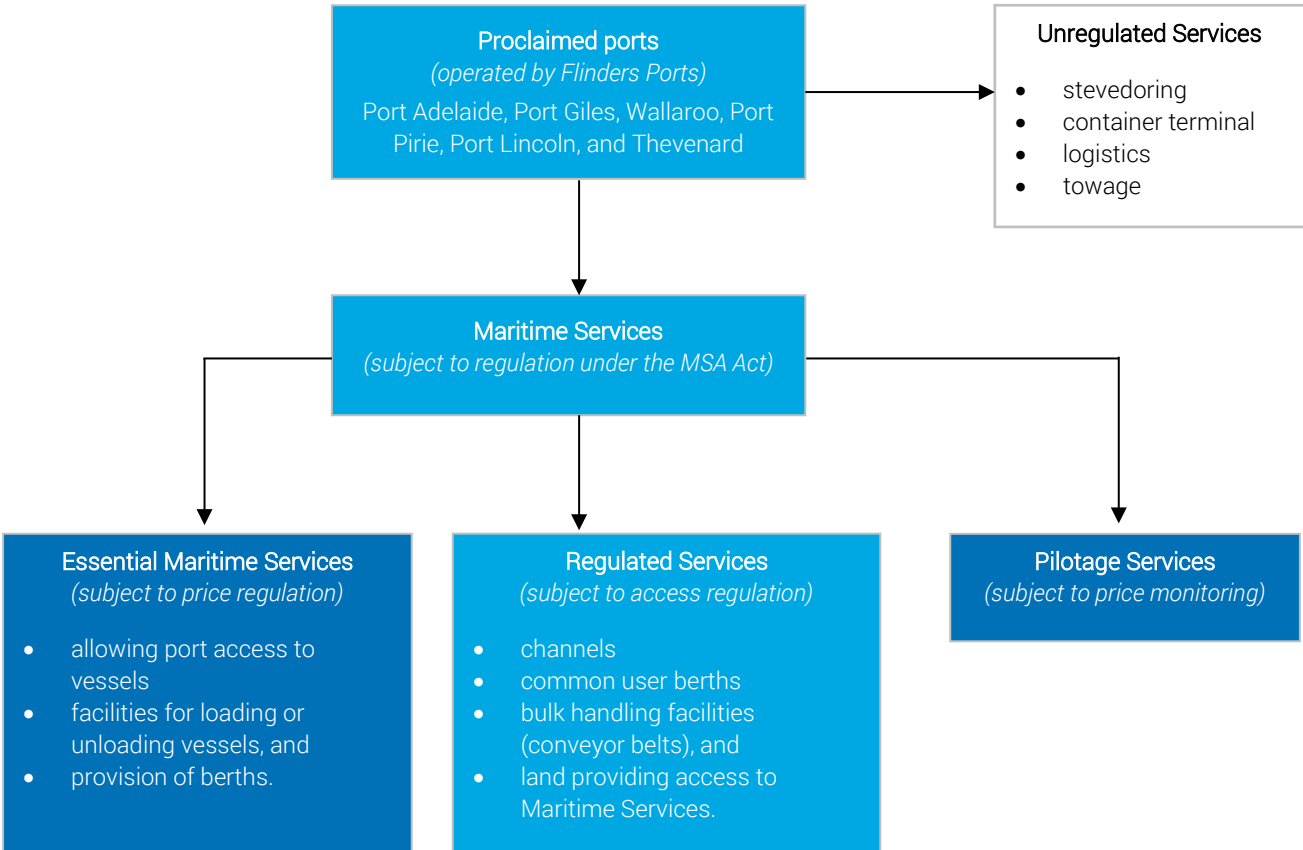
1.1.3 Pilotage Services

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)



2 Ports charges

2.1 General increase in Flinders Ports' charges

Table 2 summaries the average price movements for EMS and Pilotage Services provided by Flinders Ports.

Table 2: Average Increase in EMS and Pilotage Services charges for 2018-19

Port Service	Average price increase
Cargo (EMS)	2.5%
Harbour (EMS)	2.3%
Navigational (EMS)	3.5%
Pilotage	4.2%

Information provided by Flinders Ports indicated that approximately 30 percent of ports users were paying commercially negotiated charges. The standard price increases may therefore not be reflective of the actual prices paid by all ports users.

Figure 2-1 shows that the non-weighted average EMS prices have rose by approximately 39 percent between 2004-05 and 2018-19, mainly driven by increased wage costs and the continued recovery of costs associated with the introduction of its Vessel Tracking System (VTS) through Navigational Service charges.

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 and Pilotage Services. However, it was unable to do so for 2018-19 because both EBAs have passed their maturity dates and negotiations have failed to reach new agreements.¹

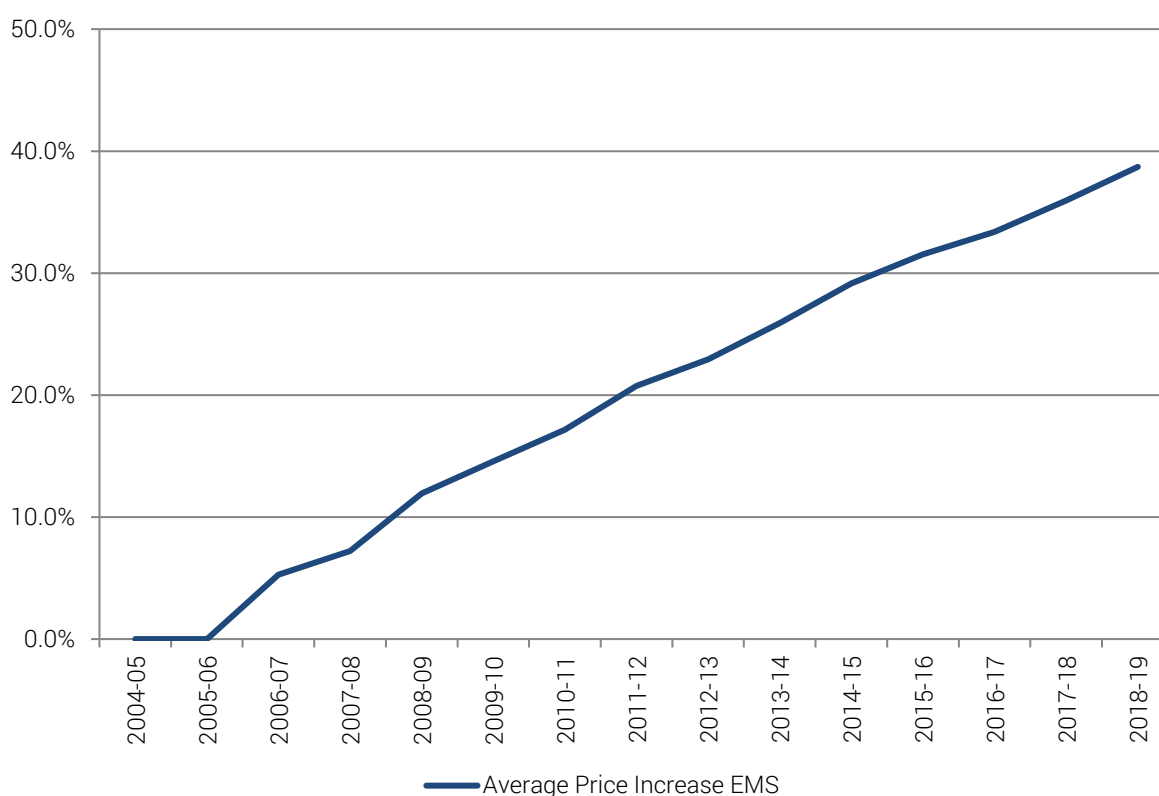
To develop its 2018-19 EMS charges, Flinders Ports firstly estimated the wage increases for general port employees to be approximately, on average, 1.3 percent above Adelaide's CPI over the past 10 years. Using Adelaide's CPI figure of 2.3 percent², it assumed the expected wage increase for 2018-19 to be approximately 3.5 percent.

For marine pilots and boat crew, Flinders Ports assumed the average wage increase to be approximately 3.9 percent for 2018-19.

¹ Flinders Ports has historically entered into separate EBAs relating to EMS and Pilotage Services. The previous EBA relating to EMS ran from 2015-2018 and provided for an annual wage increase of Adelaide's CPI plus 1.3 percent. The previous EBA relating to Pilotage Services ran from 2014-2018 and provided for an annual wage increase of four percent.

² For the purposes of setting its ports charges, Flinders Ports has used the Adelaide March 2017 to March 2018 All Groups CPI of 2.3 percent as published by the Australian Bureau of Statistics (catalogue number 6401.0).

Figure 2-1: Movement of cumulative average EMS prices (nominal)



Source: Flinders Ports

2.2 Cargo Service charges increased

Average Cargo Service charges increased by 2.5 percent in 2018-19, as summarised in Table 3.

Table 3: Components of increase in Cargo Service charges

Component	% of total cost	Increase	Weighted average
Infrastructure-based costs	85%	2.3%	2.0%
Labour cost	15%	3.5%	0.5%
Overall increase			2.5%

2.3 Harbour Service charges increased

Harbour Service charges consist of a fixed component (levied on a per vessel basis) and a variable component (levied on per gross registered tonne per hour at berth).

Average Harbour Service charges have increased by 2.3 percent in 2018-19, as summarised in Table 4.

Table 4: Components of increase in Harbour Service charges

Component	% of total cost	Increase	Weighted average
Variable component	60%	1.6%	1.0%
Fixed component	40%	3.4%	1.4%
Overall increase			2.3%

2.4 Navigational Service charges increased

Average Navigational Service charges have increased by 3.5 percent in 2018-19, as summarised in Table 5.

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).³ 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.

Table 5: Components of increase in Navigational Service charges

Component	% of total cost	Increase	Weighted average
Infrastructure-based costs	80%	2.3%	1.8%
Labour cost	20%	3.5%	0.7%
Vessel Tracking System			1.0%
Overall increase			3.5%

2.5 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.

Average Pilotage Service charges have increased by 4.2 percent in 2018-19, as summarised in Table 6. Flinders Ports previously advised that occupational specialisation is a key driver of the higher wage growth for marine pilots.

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.

Table 6: Components of increase in Pilotage Service charges

Component	% of total cost	Increase	Weighted average
Labour cost	86%	3.9%	3.3%
Capital cost	7%	10%	0.7%
Maintenance cost	4%	3.2%	0.1%
Other cost	3%	2.3%	0.1%
Overall increase			4.2%

³ Expressed in June 2012 dollars.

3 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 previous South Australian Minister for Transport and Infrastructure 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 that further period.

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.



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