Shipping Australia Limited

Shipping Australia Limited
ABN 61 096 012 574

Suite 2, Level 1, 101 Sussex Street, Sydney NSW 2000
PO Box Q388 QVB PO, Sydney NSW 1230

Tel: (02) 9266 9900
Fax: (02) 9279 1471

Essential Services Commission of SA
GPO Box 2605
Adelaide
SA 5001

Attn – Mr Peter Lim

10 July 2012

Subject - Submission to ESOSA 2012 Ports Pricing and Access review.

Dear Mr Peter Lim,

Thank you for a copy of the "Draft Report" on the ESCOSA 2012 Ports Pricing and Access review. Shipping Australia Ltd would like to make comments on various comments/items contained in the "Draft Report".

(AA) Pg 3 1.2 1 Market Power.

Shipping Australia agrees that companies that are in a position of abusing market power and able to increase prices above competitive levels could harm the economy of South Australia.

We are concerned Flinders ports P/L, Viterra ltd and the 2 towage companies (Svitzer & Port Lincoln Tugs P/L) are in a position of strong market power and have the potential to exploit that strong market position.

(BB) Pg 8 2.2 2007 Ports Price review.

"regulatory accounts submitted by Flinders Ports, which indicated that they had not been earning excessive profits"

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"Benchmarking of port charges conducted by Meyrick Consulting Group Pty Ltd (Meyrick and Associates) on behalf of the commission, which showed that although port charges in South Australia are generally more expensive compared to other Australian ports, greater economies of scale in other ports were considered to be a major factor explaining this difference, rather than the misuse of market power by South Australian Operators.

Consideration needs to be given that during 2007 – 2009 South Australia was in a period of drought affecting grain exports. Grain is the largest export commodity for South Australia. Export grain attracts an export wharfage charge from Flinders Ports. The scheduled Export Wharfage charge was $1.50 per metric tonne between 1/7/2006 – 30/06/2007

Yearly profit graphs before Flinders Ports involvement showed as a duplication of the Grain Export Tonnage graphs. The more grain exported were reflected in the ports profits.

Five of the six commercial ports under Flinders ports control offer grain loading capabilities.

The wharves / jetties are under Flinders Ports control but the loading equipment/belt is under Viterra's control and Flinders Ports charges Export Wharfage for each tonne that leaves the end of the loading belt onto the ships.

The rate in 2006 -2007 was $1.50 Per Tonne (Tariff Rate)

The rate in 2012- 2012 was $1.93 per Tonne (tariff Rate)

There is very little maintenance at these grain loading ports from a Finder Ports perspective and with high volumes being exported of late, we would expect these ports to be good profit centres.

Yet despite large volumes of grain being exported in recent years South Australia still has ports that suffer from shallow channels and shallow berth boxes with Flinders Ports having given no indication to improve these ports despite requests from various industry parties.

This industry believes the profits generated from Grain & General Cargo operations are channeled back into the container or mining infrastructure, leaving other ports to suffer.

Svitzer, Towage Company put their rates up in 2008 well in excess of the CPI stating that due the drop in number of vessel calls because of the drought, the increase was necessary for them to maintain their services. However the drought has since broken with record tonnages of grain grown & exported, but the rates have not decreased.

(CC) Pg 17 The Flinders Ports submission commented:

"(It) competes not only with other Australian ports like Melbourne and Fremantle for those shipping services that operate within a trade sector, but with other ports within the region and around the globe."

This relates mainly to the container/liner carriers who unless they can secure a minimum volume of cargo or units to warrant a regular port call will not commit to calling Adelaide on a regular basis.

It is these container carriers/trades which are referred to being the parties that have managed to negotiate charges below the list schedule so as to make calling Adelaide viable.

Flinders Ports have to entice these carriers to offer the shipping services to increase throughput through the container terminal.

This is nothing new and has been an ongoing issue since Adelaide opened its container terminal in the 1970's.

There is a perception within industry, that Flinders Ports business earnings from other areas of the shipping industry (bulk carriers & general cargo vessels) is used to supplement the container industry, terminal expansions, new cranes etc. This diversion of funding to the containers business area is clearly seen when one looks at the condition of the general cargo infrastructure.

There is little or no competitiveness from other ports bulk & general cargo business. This business is captive as ports of load & discharge are declared in Charter Parties and due to the volume/ amount or configuration of these cargoes and it is too difficult or costly to send to other ports for handling.

"The Draft South Australian Container Origin Energy/Destination Study notes that in 2008, 125,000 international import/export containers destined for/originating in South Australia were shipped via the Port of Melbourne"

Whilst the report states the volume of cargo that leaks over the borders to other ports, this is mainly due to the lack of shipping service being offered directly out of Adelaide.

(DD) Pg 18 MINING - Flinders Ports commented that:

"...additional investment on specific infrastructure (storage, loading and integrated logistics services) will be required to support the specific requirements of and the anticipated growth in this industry sector"

Shipping Australia agrees that as a result of the worlds hunger for minerals that mineral exports ex. South Australia has risen over the last 24 months. Storage sheds built, railway line/loops laid etc.

However we feel this infrastructure should be paid for by the users i.e. the mining companies.

The mining companies enter into contracts with the cargo receivers, contractors etc. so the longevity is known, and infrastructure costs can be amortised over such a period.

The break-bulk industry has what is referred to as "common user areas". This mining infrastructure does not fall under common user facilities.

When the entrance channel to the container terminal & O/H No 8 was dredged to 14.20mtrs in 2006 it came at a cost of some 20 million dollars to Flinders Ports.

Flinders Ports applied a "Channel Deepening Surcharge" to all containers being loaded in or out as well as the grain exports ex O/H 8 to recover their costs of the project. (User Pays)

Flinders ports knocked down an old wharf shed and improved the hard stand at O/H No 1 & 2 some years back. Berths 1 & 2 are used to store imports of motor vehicles. Flinders Ports applied a "Site Occupancy Fee" to every import motor vehicle to recover the cost of these improvements. (User Pays)

If the mining infrastructure is specific to certain materials and handling requirements not required by all users of the port, then the mining industry should pay for these purpose-built facilities similar to the "Channel Deepening Surcharge".

(EE) Pg 19 Para 3 – expenditure on developments.

Shipping Australia cannot see why all or a great percentage of these charges are passed to the ship or service operator. The infrastructure is shore side with the shippers or the receivers of the cargoes who used the shore side infrastructure being the beneficiaries (user pays?).

Shipping terms of "Free In" or Free Out" (common in the break-bulk industry) mean the receiver or shipper pays all costs until the cargo is either on or off the ship. Why should the ship pay for landside infrastructure to load cargo when all costs should be to the account of the shipper or receiver, in these cases?

The reasons are-:

(AA) The ship is an easy target and 1 point of contact. (1 Invoice to one party)

(BB) The port company does not want to be seen as being the "Bad Wolf" by increasing a number of port charges to a large number of clients.

General Comment-

On the subject of infrastructure the industry has some ongoing issues with some of Flinders Ports berths in Port Adelaide.

As mentioned throughout this reply, the industry feels the bulk & general cargo area of shipping has been somewhat neglected over the years and now have a number of concerns about berths 18 – 20 in Port Adelaide

The industry has raised these concerns with Flinders ports but is yet to see any action. Below is a list of the items raised by Qube and Patrick Stevedoring at a meeting with Flinders Ports on 29th March 2012.

- Wind Farm Blades now at 55m long and will be difficult to handle at IH 18-20
- Wind Towers and Nar cells up to 120t per lift
- Patrick indicate lighting in No. 20 shed OK But lighting directly behind and in the area further back is very poor.
- No. 19 shed still has issues with Pigeons. It was noted that the shed is not used all that often except for steel coil.
- Wharf surface at No. 18-20 is poor due to rail line causing uneven areas that make moving cargo via forklifts difficult
- No. 18 shed is excellent except that the door width needs to be larger to handle steel beams. Same size as 20 shed will be good. (Note that QUBE installed the door at No. 18 shed)
- Need the wharf surface ship side replaced as was 20 berth some time ago. Cargo residue is difficult to remove from 18-19 berth due to the surface.
- Whaling (Kerbing) needs to be more like 29 berth and sit flush on the wharf, this will allow better cleaning of the berth and will hold back cargo from entering the water.
- Expected cargo: 962 x 15m Huts to be delivered for BHP. Need the entire area at 18-20 to be sealed.
- Lighting: Entire sight is Poor, QUBE have a report but no action from Flinders Ports to fix.
- Sheep handling at No 18-20 is difficult as the wharf face is to shallow and the areas between the sheds is too small to handle B doubles, Need No.19 shed removed.

- Flooding in and around QUBE office is still a problem
- QUBE have indicated if sheep, soda ash and soya meal are to be 100% handled they will have to look at moving the office from No.18-20
- We need to expect a flood of additional mining equipment looking for laydown sites
- No 20 berth drain is a problem re filling up with cargo even with matting laid over it
- OH berth 3 will need to be the Wilhelmsen BHP Berth due to the PAD rating (90t)
- QUBE have suggested that they would be interested in developing a wash bay at 18-20 berth that they would run.
- 3rd access point alongside One Steel using the existing roadway (Morialta Street) would assist with cargo operations

Wish list for urgent attention:

1. Remove Fertiliser from 18 shed
2. Make 18 shed door larger
3. Fix surface around the sheds
4. Remove all or Part of 19 shed (if part then the Northern end removal would be preferred)
5. Improved lighting for the entire facility

Yours faithfully,

Geoffrey S Rose
Chairperson – Shipping Australia Limited
South Australian Division