

Date: 4 February 2004

Ports Access Regime: Discussion Paper
Essential Services Commission of SA
GPO Box 2605
Adelaide SA 5001

Dear Mr Owens

RE: Discussion Paper: Ports Access Review

Thank you for providing a copy of the Essential Services Commission of South Australia's (ESCOSA) Ports Access Review Discussion Paper for comment by the South Australian Freight Council Inc (SAFC) Membership.

The Discussion Paper was referred to the SAFC Infrastructure and Regulations Working Group for review, and the following comments have been received:

- The Group thanks you for the opportunity to comment on this issue of significance to the SAFC Membership;
- We also understand that some SAFC Members (such as AWB Ltd, ABB Grain and Shipping Australia Limited) will be making submissions to ESCOSA on this matter in their own right;
- SAFC believes that all of the Regulated Services currently covered by the Access Regime should remain under the auspices of ESCOSA;
- However, SAFC asks the question: Will the list of regulated services covered by the Access Regime be expanded to include any new berths created, especially those related to the proposed Outer Harbor Grain Terminal (OH8)?;
- The justification for excluding Ardrossan from the Access Regime, especially the shiploader, is not obvious to SAFC Members. The grain industry is becoming increasingly competitive, which could lead to an increase in the number of importers/exporters requiring access to key facilities.
- SAFC also suggests that ESCOSA review the inclusion (or otherwise) of facilities adjacent to shiploaders that may be required to facilitate efficient cargo accumulation and loading.

The attachment which follows contains SAFC's response to the 7 specific questions raised within the Discussion Paper for each of the Pilotage, Shiploaders and Land topics contained within the paper.

SAFC Members wish to continue to be kept informed of developments with ports access, and this review, as they occur.

Feel free to contact me on the numbers listed below if you wish to discuss this response.

Yours Sincerely

Neil Murphy
Executive Officer

SAFC RESPONSE TO ESCOSA DISCUSSION PAPER PORT ACCESS REVIEW

Pilotage

1. *Does the structure of the market for regulated services suggest market power could exist?*

There is only one provider of pilotage services in each of the SA ports regulated. This is principally a function of market size. Therefore, as there are no alternative providers of pilotage services then market power does exist (albeit, that there is no evidence that it is being exercised at this time).

Should ESCOSA consider that pilotage should be excluded from the list of Regulated Services then ESCOSA might consider the introduction of an “exclusive licensing” system, similar to that recommended by the ACCC for harbour towage services. Further information can be provided if necessary.

2. *Is market power being misused or is the potential there for it to be misused?*

As outlined above – there is no evidence that the potential market power is being misused at this time. However, the potential impact from an abuse of power may be a loss of ship calls, resulting in a need to landbridge to/from interstate ports to access suitable shipping services. This would have a deleterious impact upon infrastructure maintenance and wear (road and rail) with a consequent increase in environmentally damaging emissions, a deterioration in the State’s road safety performance, and a worsening of the competitive position of SA exporters (vis-à-vis interstate competitors).

Conversely, the port operators, whom receive a majority of their revenue from ship calls and cargo exchanges, have a vested interest in ensuring that their pilotage services are competitive, particularly on a national basis. When determining whether to include a port in their sailing rotations, shipping lines will assess potential ports of call on the basis of cargo/exchanges available, costs of alternative logistics systems (eg: landbridging costs), and the overall total costs incurred (including pilotage).

3. *Do customers have alternative sources?*

As outlined above, pilotage is compulsory, and there are no alternative sources available.

4. *Is competitive entry possible?*

Market entry is highly unlikely due to the relatively small size of the market and the specialised “local” knowledge required.

5. *Does the answer vary between proclaimed ports and between the goods being moved?*

No.

6. *Are pilotage services of sufficient importance to the SA economy to warrant economic efficiency concerns?*

Yes. In the event that pilotage services became comparatively high or that access to the available services was not considered to be equitable, then shipping services may quit the State, in favour of landbridging South Australian cargo to/from interstate ports (especially Melbourne), with resultant economic, environmental and social concerns.

C/o Flinders Ports Limited, 296 St Vincent Street, Port Adelaide SA 5015.

Telephone: (08) 8447 0688 Facsimile: (08) 8447 0606 E-mail: murphy.neil@flindersports.com.au

Website: www.safreightcouncil.com.au

The South Australian Freight Council Inc is proudly supported by Federal and State Governments.

7. *Is the Port Access Regime appropriate – is it able to fix the above matters or will it impose excessive additional costs and risks?*

SAFC understands that this area has not been tested as yet.

Shiploaders

Vessels visit SA ports so as they can load and unload freight. To undertake this task, ship owners/charters require access to suitable loading and unloading facilities.

1. *Does the structure of the market for regulated services suggest market power could exist?*

Generally, at SA ports there is only one provider of shiploaders which are also specific to particular commodities/tasks (eg: grain). Consequently, as there are no alternative providers of shiploaders, and as market entry is constrained by both the high capital start-up costs and availability of suitable berth infrastructure, market power could conceivably be exercised.

2. *Is market power being misused or is the potential there for it to be misused?*

SAFC has no evidence, and therefore does not know whether market power is being misused at this time. However, the potential impact from an abuse of power may again be a loss of ship calls with similar outcomes as that outlined under pilotage services. Again, both the port operator and operator of the shiploaders have a vested interest in ensuring that their services are competitively priced and accessed by as many potential customers as is possible.

3. *Do customers have alternative sources?*

In some cases alternative sources exist for exporters to access shiploaders.

In the case of grain, there is competition amongst ports, and hence competition amongst shiploaders on Yorke Peninsula (Ardrossan operated by AusBulk, and Port Pirie, Port Giles, Wallaroo, and even Port Adelaide compete with Ardrossan and are operated by Flinders Ports). However, the shiploaders at these Flinders Ports controlled ports are also controlled by AusBulk.

Additionally, as the nature of the products using the shiploaders covered by the Port Access Regime is bulk, there is only limited competition between states in terms of shiploader access. Bulk products tend to be loaded at the nearest available port with suitable facilities available. Due to the costs and inefficiencies involved, this does not normally involve any interstate movement over any significant distance. One exception to this general rule is grain produced in the South East of the State which has a choice of using Port Adelaide facilities or exiting through Portland in Victoria.

4. *Is competitive entry possible?*

Market entry is highly unlikely due to the high cost involved in entering the market. These costs might include not only costs associated with establishing new shiploading facilities, but where appropriate berths and other facilities are not available, can include costs associated with constructing a 'new port'.

SAFC understands that AWB Limited has recently undertaken a feasibility study on developing a deep water port at Myponie Point on Yorke Peninsula (approximately 10km above Wallaroo) but are not privy to the report's content or conclusions.

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5. *Does the answer vary between proclaimed ports and between the goods being moved?*

Access to ports offering deep water, and therefore offering greater capacity in terms of ship sizes capable of being handled, will become increasingly important over the coming years. These deeper ports offer economies of scale to industry that will lead to reduced per unit shipping costs. However, shiploader load-out rates will also significantly influence per unit logistics costs and therefore access to shiploaders at these ports is crucial. Port Adelaide, Port Giles and Port Lincoln are (or will be developed as) the deep water ports in this State. Wallaroo has also been upgraded to part-Panamax capacity.

6. *Are shiploaders of sufficient importance to the SA economy to warrant economic efficiency concerns?*

Yes. In the event that shiploader costs become comparatively high or that access to the service was not considered to be equitable, then shipping services may quit the State, in favour of landbridging South Australian cargo too/from interstate ports (especially Melbourne), with resultant economic, environmental and social concerns.

Additionally, the grain industry is the principal user of the shiploaders covered by the ESCOSA Ports Access Regime, and this industry is critical to the State as a whole, but in particular, rural communities.

7. *Is the Port Access Regime appropriate – is it able to fix the above matters or will it impose excessive additional costs and risks?*

SAFC understands that this area has not been tested as yet. However, SAFC does highlight that there is some industry concern regarding loading costs charged in this State that are associated with grain exports. This concern has resulted in the progression of proposals to establish new ports and facilities in this State.

SAFC also takes this opportunity to provide comment to the effect that access to storage and handling facilities adjacent to shiploaders should be similarly covered by the ESCOSA Access Regime. Any access regime for adjacent storage and handling facilities should only be applied for limited periods that would facilitate accumulation and loading of the product (and not long term use of storage facilities).

Land

As highlighted within the Discussion Paper, access to land in connection with other regulated facilities (ie: adjacent to berths, shiploaders and the like) is also critical to the State's trading community.

1. *Does the structure of the market for regulated services suggest market power could exist?*

Access to land adjacent to berths, shiploaders and the like is critical to accessing necessary facilities and equipment. As land is limited in supply, and further limited in terms of its proximity to required facilities, there is potential for market power to be exercised.

2. *Is market power being misused or is the potential there for it to be misused?*

SAFC has no evidence, and therefore does not know whether market power in terms of access to land is being misused at this time.

3. *Do customers have alternative sources?*

SAFC believes that there are no alternative sources of land from which access to specific facilities can be achieved. It is technically possible to build conveyors around (including under or over) certain pieces of land, but this will add significant costs and increases risk.

In the event that access to land was blocked, then exporters would then be forced to move product to other ports, which are likely to offer reduced benefits and/or increased costs.

4. *Is competitive entry possible?*

As the supply of land is limited, competitive entry would only be possible in the event that specific pieces of land were made available to the market. Moreover, should this land be sold, the monopoly of supply would merely shift from one player to another. In the absence of an assurance that access would be made easier (freed up), this “new” entrant would then be able to exercise similar power to its predecessor.

5. *Does the answer vary between proclaimed ports and between the goods being moved?*

No – all goods will require access to land to ensure that they are able to access facilities such as shiploaders.

6. *Is land access of sufficient importance to the SA economy to warrant economic efficiency concerns?*

Yes. In the event that land access costs become comparatively high or that access to the service was not considered to be possible and/or equitable, then shipping services may quit the State, in favour of landbridging South Australian cargo too/from interstate ports (especially Melbourne), with resultant economic, environmental and social concerns.

7. *Is the Port Access Regime appropriate – is it able to fix the above matters or will it impose excessive additional costs and risks?*

SAFC again understands that this area has not been tested as yet.

SAFC would also reiterate that access to storage facilities adjacent other significant items of infrastructure (eg: shiploaders etc) requires clarification (see closing comments under “Shiploaders” section of this submission).