



6th March, 2003

TO Essential Services Commission of SA
GPO Box 2605
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ATTENTION Mr. Lewis W. Owens
Chairperson

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SUBMISSION

This response is to the Essential Services Commission of South Australia (ESCOSA)
“*Should Price Regulation Continue ? Ports Price Review : Discussion Paper No. 1*”
November 2002.

INTRODUCTION

There is a limited market for domestic Barley in South Australia compared to production (South Australia ranked as the largest state producer of Barley in Australia). In a bumper crop for example, South Australia grows more than 2 million tonnes Barley per annum but less than twenty percent is directed towards domestic consumption.

ABB Grain Ltd (“ABB”) is one of the state’s leading bulk grain exporters; effecting South Australian shipments through the six Flinders Ports owned ports¹. Barley is the principle grain accumulated by ABB for which this company holds the statutory *single desk exports rights*. ABB markets to 30 international destinations, including major markets in the Middle East, China and Japan. ABB’s marketing ability has lead the way to it being recognised as one of the world’s largest exporters of Malting Barley. ABB also purchases and markets other grains inclusive of oats, oilseeds and pulses.

Particularly due to the geographic remoteness of South Australia (ie : distance to the northern hemisphere markets), ABB is very conscious of being competitive and retaining hard won markets. *Quality and Customer focus* comes into to it, but also ABB currently charters over 65% of vessels in its own right (on a “Cost and Freight basis”). Chartering of vessels protects market prices against sudden swings in ocean freight rates. The export costs of Australian ports also are a significant determinant in the competitive export of Australian commodities, including Barley.

In the two year period 1 July 2000 through to 30 June 2002 ABB exported over 3.3 million tonnes Barley (value A\$800 million) in 231 vessels through six of the seven (Ardrossan excluded) proclaimed South Australian ports.

3. WHAT ARE ESSENTIAL MARITIME SERVICES ?

3.1 Current Situation

What services do you understand each of the three current charges to cover ?

- **Navigational Service Charge :** The Port Authority provides Port Control for :-
 - efficient and safe rotation of vessels into and out of Port(s); and
 - provision of navigational aids for guidance of vessels in coastal waters. This includes beacons and channel markers.
- **Harbour Service Charge :** Provision of berths, associated fendering and mooring facility for vessels.
- **Cargo Services Charge :** Means of recovering the cost of providing port facilities, including channels, berths and wharves.

¹ Port Adelaide, Port Giles, Wallaroo, Port Pirie, Port Lincoln and Thevenard.

What does the amount charged for each of the three services indicate about the services each covers ?

- Provides a means for cost recovery. Segregation of charges should enable identification of costs on port users. Important for the charge structure not to facilitate cross subsidization, be able to be substantiated and be internationally competitive.

3.2 Beyond 2004

What port services do you think fall under the definition of Essential Maritime Services – other than those excluded as above ?

- Provision of sea access to a proclaimed port.
- Provision of pilots since most port entry / exit is compulsory.
- Provision of land for access or development to improve cargo-handling efficiencies.

Which services, currently included in the three types of port charges, do you consider should not fall within the definition of Essential Maritime Services?

- Believe it would be more appropriate if the Cargo Services Charge were levied against the Ship Owner. It is the Ship Owner who accesses channels, berths and wharves. All these relate to the access of vessels into the port.
- Cargo cannot be unloaded / loaded until the vessel has reached the point of being in a position to receive or deliver cargo.

Should mooring be removed? Can mooring be removed?

- No. Essential part of port operations controlled by the Port Owner.

Should storage be removed? Can storage be removed?

- Yes. Consider it better if subject to free market forces.
- Believed it only affects Port Adelaide inner and outer harbour.

How significant are these services in terms of their value and strategic impact upon you as a customer?

- Mooring is a significant operation of port services essential to the security of vessels alongside the berth.
- Storage is not significant as product is typically exported in bulk through independently owned grain silos.

4. DECIDING WHETHER PRICE REGULATION SHOULD CONTINUE

4.3 Assessment criteria

What other implications do the objectives have for the way in which ESCOSA should decide whether price regulation should continue?

- For years, port users have been bound by regulated, non negotiable pricing through four port operators, SA Harbours Board, Department of Marine & Harbours, Ports Corp SA and more recently Flinders Ports South Australia.
- Flinders Ports became the State privatized port owners in November 2001 but price bound by regulation until 2004 or longer, subject to review.
- Regulated pricing in its current format does not facilitate efficiency gains to be passed on or handicaps free market negotiation. Rather than have a flat \$1.50 Cargo Services Charge, it would be more appropriate if regulation structured a ceiling price, for which Port Users could negotiate lower rates based on free market elements such as Logistic efficiencies, throughput, etc.

What other criteria should ESCOSA apply in its analysis and how should they be applied?

- Take on board that the excessive regulation facilitates monopoly on port control. Such may not be conducive to achieving optimum outcomes.
- This is evident by restrictions imposed by government on proposals for development of new grain exporting facilities outside the parameters of the proclaimed ports. For example, AWB and AWB were not successful in bringing the proposed Port development at Port Stanvac to fruition.

5. CALL FOR INFORMATION

What information can you provide in the areas listed below or in other areas you consider relevant ?

5.1 Market Structure

This means that ESCOSA seeks some specific information on the:

Number of providers of Essential Maritime Services in each proclaimed port;

- As per Flinders Ports requirements under the Maritime Services Act 2000.

Scope for, or impediments to, having additional providers of Essential Maritime Services in each port;

- Maybe insufficient tonnage at all ports to warrant additional providers.
- In any case, such action should have been implemented within the “Ports sale” so that potential buyers knew their estimated revenue base to recover outlay.

..... way Essential Maritime Services are packaged and delivered in each port;

- Satisfactory.

..... importance of Essential Maritime Services in port operations.

- Very important that complete package be maintained for efficient port operation – removes confusion.

It also means seeking information more broadly on the:

..... various customers using Essential Maritime Services in each proclaimed port;

- ABB use services from each Port.

..... type and value of cargoes moving through each proclaimed port (last 2-3 years and projections for the next 2-3 years):-

Year 2000/2001 1.4 M tonnes Value ~ A\$ 345 M
Year 2001/2002 1.8 M tonnes Value ~ A\$ 455 M

The above figures are accumulative totals of all ports except Ardrossan.
Segregating values would disproportion numbers due to single and two port loading plus quality parameters of Barley exported.

Subject to seasonal conditions the forecast exports for the next two years are as follows

Year 2003/04 1,500,000 tonnes
Year 2004/05 1,500,000 tonnes

Forward values not available as too early to predict market returns.

..... *significance of those cargoes to South Australia:*

- *import and export values;* Export ~ A\$800 million gross revenue.
- *value added;* 4 % of above.
- *employment;* Marketing, Logistics, Grower Services.
- *investment;* Supply Chain & Infrastructure.

..... *nature of the supply chains that each cargo moves through and the position of Essential Maritime Services in those supply chains (road, rail, air, sea, interchange, storage, chain/product integrity);*

- Road and Rail - No Essential Maritime Services involvement except in the capacity as detailed under the Maritime Services Act at the seaport.

..... *proportion of total transport cost for which Essential Maritime Services account;*

- Cargo Services Charge represents ~ 8 %. By comparison to other Australian Ports (also Port charges made for the export of other commodities), the 'Cargo Services Charge' as levied by Flinders Ports is at the upper end of the spectrum and does handicap ABB in the international arena.

..... *availability of alternative avenues for import or export, for example:*

- *rail, or road, to and from Port Melbourne;* Available, but at a cost.
Could capture South East Grain.
- *rail to and from Fremantle;* Not economic.
- *rail, or road, to and from Portland; or* Rail/Road Available. Same comments, Port Melbourne.
- *prospectively rail to and from Darwin;* Not feasible, due to distance, volume of bulk product and cost. Cheaper by sea freight direct to overseas destination.

..... availability and economics of new and alternative port development options:

: availability of suitable sites for new ports;

➤ 3 prospective Bulk Grain Ports under consideration :-

Outer Harbour

- Currently under review for development under the Ports sale process - Economic side still under review due to infrastructure costs not yet finalised. Participants (ie : equity arrangements per government direction of AusBulk 50 %, ABB 25 % and AWB 25 %) involvement being frustrated.
- Rail / Road corridor and bridges for both transport modes (ie : road & rail) to be built across the Port River.
- Outer Harbour guaranteed to be dredged to 12.2 metres and berth to be built in conjunction with the Ports sale process.
- Grain exporters (ABB and AWB Limited) have advised that a minimum 12.2 metres is outdated. 14.0 metre depth of water is required to meet increasing draft of new generation panamax class vessels. Reported estimated extra dredging cost of \$60 million required at cost to the Government and private sector.

Port Stanvac (South of Adelaide)

- Land available within the Mobil Oil Refinery. Feasibility study undertaken during 2002 by ABB and AWB Limited. Ample depth of (draft) water available (ie : 15 metres increasing to 17 metres over 250 metre length of proposed berth).
- No dredging required.
- Bulk Grain Terminal, Rail loop line, conveyor jetty and berth, plus standardisation of the broad gauge rail track from Noarlunga to Adelaide was estimated at ~ \$100 million. This cost to be totally met by the Private Sector.
- Port facilities (Tugs and pilots) available from Port Stanvac Mobil Refinery (marine Services) and would have been shared with the Refinery that presently handles over 100 ships per year.

- Further advancement of this project negated by Government with direction to progress the Outer Harbour.

Myponie Point

- ~ 10 km north of Wallaroo in Spencers Gulf. Land purchased by AWB Ltd for proposed deep-water port – study on costs not released.

..... expansion options at existing ports;

- Development of Outer Harbour already discussed.
- Port Stanvac - Further advancement of this project negated by Government with direction to progress the Outer Harbour.
- Port Giles to be dredged to full Panamax capability. Dredging contract pending.
- Wallaroo jetty reconstruction to allow part loading of panamax vessels was included in the recommendation from the Deep Sea Port Investigating Committee and subsequently agreed by the Government under the Ports sale process. Commencement of work due to start on April 2003.

..... cost of developing these options.

- **Outer Harbour** as per Ports sale process and commitment from Flinders Ports to dredge to 12.2m, berth pocket 14 m and build berth ~ \$26 million. Reported estimated additional dredging cost of \$60 million to achieve required 14 m depth of channel. Grain Terminal construction at ~\$70 million. Additional costs for all other grain related projects at Outer Harbour not defined. Such excludes rail line costs, bridge costs, etc. An unqualified quotation would suggest an expense potentially exceeding \$200 million, would not seem unreasonable.
- **Port Stanvac** Private Sector bearing total cost at ~ \$100 million.
- **Port Giles** on public record.
- **Wallaroo** on public record.

5.2 Monopoly or Market Power

Monopoly or market power results in the ability of a service provider to raise prices, withdraw services, reduce service standards or otherwise act in a discriminatory manner. Monopoly or market power can have various causes, some of which may justify price regulation, although sometimes it may be preferable to remove the cause.

ESCOSA seeks the following information in respect of Essential Maritime Services:

- *legal or physical barriers to entry, that is:*
 - *are there legal constraints that stop others from offering Essential Maritime Services in proclaimed ports; or*
 - *are there no sites or space available to offer them;*

- There are economic barriers to entry for others to provide Essential Maritime Services.
- It is understood the Port Corp sale process excluded others from offering Essential Maritime Services at proclaimed ports - ie : the service was sold as part of the package.
- In relation to available sites (if any) should it be within the land mass sold by the Government to Flinders Ports, we believe a new operator could be limited by the conditions of the current Port Owner including payment of fees for Navigation, Cargo services and Harbour services.
- Outside the land mass comprising Flinders Ports ownership (ie : land opened up for sale by the Government) would enable a competitor to operate freely but at expected cost for access to the waterway.
- Experience shows from the Port Stanvac proposal that despite prima facie logic supporting this project in preference to the Outer Harbour, it would appear other political forces have greater bearing.

..... economic barriers to entry (are there large sunk costs required to offer Essential Maritime Services);

- Limitation (including quantity) of multi type exports / imports that go through the proclaimed ports.
- Financial outlay to offer Essential Maritime Services.

..... direct and indirect competition (are there competitors, is there indirect competition from other ports, other forms of transport, other locations);

- Direct competition can be encouraged where there is the potential to build alternative ports (Port Stanvac and Myponie Point are examples).
- Alternatively, where grain movement can be channeled through competing pathways (eg. South East grain to Portland).

..... economies of scope or scale in Essential Maritime Services (is it cheapest to have only one provider of Essential Maritime Services in each port);

- Most probably yes given insufficient imports / exports to warrant competition.

..... *excess returns to or costs of the current providers of Essential Maritime Services;*

- *have excessive profits been generated from Essential Maritime Services;*
- *are the providers' costs excessive;*

- From an exporter viewpoint, we believe the charges for Cargo Services is excessive (viz : \$1.50 / mt) when overhead conveyors independently support the grain pathway (not connected to the berth) to the vessel. In the two years (2000/01 and 2001/02) ABB paid Cargo Services Charges of ~ A\$5 million for export of 3.3 million tonnes.
- By comparison to other Australian Ports (also Port charges made for the export of other commodities), the 'Cargo Services Charge' as levied by Flinders Ports is at the upper end of the spectrum and does handicap ABB in the international competitive arena.

..... *whether customers have countervailing power, that is:*

- *do port customers have sufficient weight to stop a port operator from using any market power they might have;*
- Yes – by the development of alternative ports as mentioned above. However in the case of Port Stanvac, certain frustrations have halted the project.
- Bringing to fruition (or threatening to) alternate least cost pathways (eg. channeling South-east Grain to Portland instead of Port Adelaide) .. can help. But such alternate pathways are limited in number and not always practical or cost-efficient.

..... *The degree of pricing transparency, that is :*

- *are port prices relatively well known and open, such that it would be difficult for a port operator to set different prices for different users without clear reason?*
- In most cases the schedule of charges is published. By networking or intuition, other prices can be determined reasonably accurately.
- The possibility exists that a port operator, to encourage new business may offer an alternative pricing mechanism in Cargo Services Charges. However, such charges may not be open to public debate.

5.3 Competitiveness

ESCOSA is interested in quantitative and qualitative indicators of port competitiveness. These can indicate whether a port operator is acting in a way that suggests monopoly or market power is being exercised.

ESCOSA seeks information on:

..... the profitability of Essential Maritime Services in the proclaimed ports;

- Not known. No published results

..... comparisons with charges in comparable ports elsewhere (ESCOSA recognises that it is not always easy to benchmark like with like, but regards these comparisons as having value as long as the limitations are acknowledged);

- **South Australia Cargo Services Charge** **\$1.50 tonne (GST Exclusive)**
- Portland (Vic) wharfage \$0.65 tonne (GST Exclusive)
- Geelong (Vic) wharf hire \$0.26 tonne (GST Exclusive)
private owned berth.

- Charges levied at other Australian Ports are largely in the public domain.

- By comparison to other Australian Ports (also Port charges made for the export of other commodities), the 'Cargo Services Charge' as levied by Flinders Ports is at the upper end of the spectrum and does handicap ABB in the international arena.

..... the responsiveness of Essential Maritime Services providers to customer needs (port customers are best placed to provide their experiences here);

- The service providers (Flinders Ports) are the appointed new Port Owners as from November 2001. As such, they are on a learning curve in understanding and responding to customer requirements. To-date there has been good response to matters raised.

..... the responsiveness of Essential Maritime Services providers to changes in needs and new technologies; and

- There have been no new technologies put forward by the service provider during the past year. However changes have included improved safety / operational conditions for berthing panamax class vessels at Wallaroo and Port Adelaide.

..... the proactive-ness of Essential Maritime Services providers in anticipating new demands and trends.

- Adequate.

5.4 Feasibility and cost of price regulation

The feasibility and cost of price regulation varies depending upon the form chosen. For example, a heavy-handed system of fixed prices can require considerable effort from both ESCOSA and the port business. Alternatively, a simple system of price notification (which just requires that prices be posted publicly) would impose little cost. The ultimate choice depends upon the problem(s) that price regulation is there to fix.

However, stakeholders may have views on the feasibility and cost of price regulation, including their experiences in other jurisdictions. Therefore ESCOSA welcomes information or views on the:

..... cost of complying with price regulation;

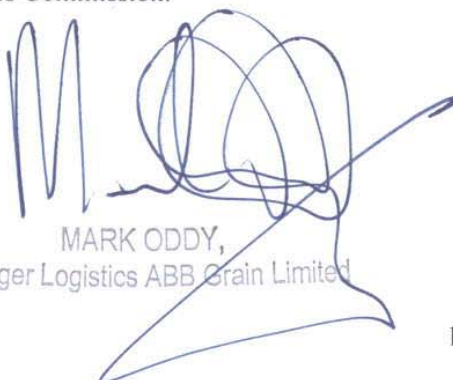
- In South Australia the past year has been the first time Proclaimed Ports Essential Maritime Services has come under regulated (inclusive pricing on port charges). ABB and others have basically worked through the years with Government ownership where the price set was “not negotiable”. ABB has noted above areas where improvements could be made.
- ABB has also worked through similar situations in Victoria where the Officer of the Regulator General has set price controls on GrainCorp who purchased the Grain Elevators Board. Again the price control in Victoria has orientated to the Port Owner cum Operator’s pricing structure to be kept within reasonable levels (cf : even allowing for efficiency gains, reasonable returns, etc). ABB contends there is merit in borrowing on the Victorian experience.

..... ability of different forms of price regulation to achieve the desired outcomes;

- Refer comments above, particularly drawing upon the experiences of the Victorian Office of the Essential Services Commission.

..... and costs (to businesses, customers and the South Australian economy generally) of price regulation “getting it wrong”.

- Refer comments above, particularly drawing upon the experiences of the Victorian Office of the Essential Services Commission.


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